

Fighting for Survival (1947-1949)

The arguments between those who supported cooperative enterprise and those who didn't continued to take up much of GCS's time. 1947 and 1948 saw Greenbelt affected by both national and local stagings of this debate.

On the national level, GCS, along with cooperatives in general, were plagued by charges from the National Tax Equity Association that cooperatives do not pay taxes and are therefore unfair to the American way of doing business. Their campaign caught up with GCS in early 1947.

The Greenbelt co-op drug store was a member in good standing of the Maryland Pharmaceutical Association, which published a trade journal. Drug Store Manager Si Pearson was surprised to read in *THE PHARMACIST*, an article labeling co-ops a "vastly growing menace," and warning that "these Co-operative retail stores have invaded Maryland....They operate without the payment of taxes and their profits are not subject to an income tax. Moreover, they enjoy the privilege of borrowing money from the U.S. governmentThe question of the continuation of retail cooperatives will likely be something for our new Congress to consider. Know your representatives in Congress and make known your sentiments."

General Manager Ashelman, familiar with this sort of disinformation, wrote to the editor. He noted that one of the Association's members was a cooperative, incorporated under Maryland's General Business Act, and that it paid all types of taxes the same as any other drug store, including state and federal income taxes. He pointed out as a further correction to the article that although GCS had never borrowed money from the Government, it did have the same right as any other private business to borrow from the Reconstruction Finance Corporation.

But the "co-ops don't pay taxes" attacks didn't stop there. Two months later the GCS board was startled to find the Maryland Senate in Annapolis about to vote on a bill to impose a tax on the patronage refunds of cooperatives. Apparently no one ever informed the State Finance Committee that the

Supreme Court had long ago determined that refunds to patrons on their purchases during the year were not profits, and therefore not taxable as profits.

A large number of GCS members, along with members of other cooperatives in the State, telephoned and wrote to key Senators, and managed to kill the measure. With this step, GCS leaders tested the political waters they were to become familiar with as the subsequent years churned up more legislative tests.

This issue, however, did not disappear. The Washington newspapers on August 18, 1947, carried the news that Greenbelt Consumer Services, Inc., was the subject of an investigation by the Small Business Committee of the U.S. House of Representatives.

Chairman of the committee (actually a subcommittee) was Representative Walter C. Ploesner (R., Mo.). The other members were Representative R. Walter Rielman (R., N.Y.) and Representative Wright Patman (D., Texas). The committee's press release stated its purpose was "to ascertain whether, and to what extent, tax-exempt privileges of cooperatives are harmful to free competitive enterprise". Although the investigation was reportedly aimed at farm marketing cooperatives, Committee Chairman Ploesner picked Greenbelt Consumer Services, Inc., as the first target.

GCS issued its own press release, pointing out that it enjoyed no tax exemption whatever and that it did not have the exclusive contract for business in Greenbelt.

In the hearing before the Congressional subcommittee, the president of the Maryland Economic Council testified that "in every community in Maryland where I have visited...the leading merchants and businessmen express fear and concern over the threatened or existing competition from cooperatives."

A former employee of the old Resettlement Administration testified that some businessmen who wanted to come into Greenbelt had complained that they "were given the runaround".

Greenbelt Mayor George Bauer testified that "the people of Greenbelt never had any choice in the matter" of deciding whether the cooperative or "private business" should run the stores. He said he felt the best interests of the town would be served by the introduction of private business. However, a letter signed by three Councilmen was introduced a little later which stated that Bauer was not authorized to speak for the Council.

Five other Greenbelt residents spoke in favor of having other businesses in the town. Thomas B. Ricker, GCS's former general manager who had been replaced after disagreement with the Board about time spent on his private business, testified that he would like to see private businesses in Greenbelt.

Jack Fruchtman, former manager of the theater, spoke along the same line, saying he would like to operate the theater there.

Residents who testified for the Cooperative included Town Manager Gobel, Councilman Morrison, GCS Secretary Frank Lastner, Greenbelt Mutual Housing Association President Sherrod East, and several others.

General Manager Ashelman was the last witness called to testify. He explained that GCS "...enjoys no tax exemptions, cannot borrow from the bank for (farmer) cooperatives, is not exempt from S.E.C. regulations, has no special privileges under the anti-trust laws, and in general appears not to be involved in any of the things which this Committee states that it is investigating.

"A series of persons, some with personal axes to grind, have been given an opportunity to air their views, to endeavor to discredit the cooperatives, and in some cases to give their explanation for the fact that they no longer hold positions they once held in the Cooperative....When all is said and done, however, it is evident that the Greenbelt Cooperative is itself a small business, struggling to do a good job in the face of problems that face all small businesses today....We think the Committee could undertake no more useful nor more daring project than an attack upon monopoly — but we must confess that we are amazed to find the Committee's brave sword turned first in our direction."

Immediately upon conclusion of the hearing, Chairman Ploesner read a resolution, approved by a 2-1 vote, describing the GCS contract with FPFA as contrary to the purpose and spirit of the anti-trust laws of the United States and urging that the contract be cancelled.

It had been pointed out by an attorney from FPFA during the hearing that the lease's exclusion of competing businesses in the Greenbelt shopping center was no different from countless shopping center lease contract provisions all across the nation. Representative Patman stated that the hearing had not demonstrated that the contract was monopolistic. He said he would oppose the resolution before the full House Small Business Committee, and if it got as far as the Congress he would oppose it there, too.

But the resolution never reached Congress. Apparently the investigation simply fizzled out after the Greenbelt hearing.

The National Tax Equality Association continued its attacks on cooperatives, but by late fall of 1947 it was under investigation by the Post Office Department for mail fraud. For the Greenbelt Cooperative the tide seemed to have turned. Its severest challengers in Greenbelt had met defeat in a new Town Council election. The identity and limited numbers of those who opposed the cooperative idea were now known throughout the town. The threat to GCS (and to the community's other cooperative organizations) at the national level dropped away after the Ploesner hearing. Mutual housing

to replace government ownership of the town was well on its way (although many problems lay ahead), and that would seem to assure GCS of a friendly climate in which to develop and offer services.

And, finally, building for the new store at the northeast corner of the shopping center was underway.

To raise enough money for escalating building costs, GCS faced a charter change which would permit it to issue up to \$1,000,000 in stock, an amount undreamed of when the charter was obtained back in 1937. Because GCS was organized under Maryland's general corporation law, any charter change required approval by two-thirds of all stockholders. This was a near-impossible task with such a large number of members, some of whom had moved out of town. More than a year was required to gather enough directed proxies for the change. Another change recommended by the Board, to make possible future changes in the charter by a majority vote instead of the two-thirds requirement, failed to win enough votes.

A continuing membership campaign among residents in the war housing at the north end of town achieved gratifying success. This campaign was linked to expectations that the new capital raised would make possible a new co-op store that would be located in that part of town. GCS management, with Board approval, negotiated for land. When it became apparent that the new store in the shopping center was the limit of expansion for the immediate future, the Board OK'd a mobile "Co-op Pantry". This served homemakers profitably for several years, making the rounds in Greenbelt and neighboring Berwyn.

Net margins were down for 1947, \$24,597 representing 1.4 percent of sales amounting to \$1,726,666. Ashelman noted in his year-end management report that although this was low as a return on sales it was high in the industry (at 13.6 percent) in relation to invested capital. GCS paid the usual 5 percent dividend on shares, but only a 1 percent patronage refund.

In January 1948, Dayton Hull resigned as president after 4 years on the Board. Frank Lastner replaced him, for a second period of service as president.

At about the same time, proposals for streamlining Board proceedings were adopted. One improvement was the creation of a three-director Executive Committee to handle routine items, prepare agenda for meetings and proposals for presentation, and put motions in writing. The Executive Committee was also instructed to recommend improvements in the committee structure.

The long wait for the new Greenbelt co-op supermarket ended on November 9, 1948, with appropriate ceremony and celebration to open the new facility at the northeast edge of the shopping center. Despite threatened

holdup in materials and equipment due to the war in Korea, the building was completed on schedule. About 9,000 came for the opening to admire the new supermarket. It boasted more than double the floor space of the old food store, five checkout counters, an in-store bakery, and the first self-service meat department in the Washington area.

The Board intended the large basement to be used as a bowling alley for the community, but GCS lacked the money for that at the time, and war shortages made installation impossible until later anyway. In the meantime, this space was used for economical wholesale warehouse storage.

A series of stock drives had brought in enough capital to provide a solid base for investment in the new building. A mortgage loan of \$150,000 came from the Reconstruction Finance Corporation. Financing was completed by two loans, \$10,000 from Prince Georges Bank and Trust and \$25,000 from Amalgamated Bank of New York.

In addition to the new supermarket, GCS remodeled its auto service station, providing more space and easier operation as well as improved appearance.

Sales for 1948 totaled \$1,881,510, with cost of goods sold at 73.6 percent, salaries at 15.5 percent, and expenses at 8.7 percent. Net margin was \$42,332, or 2.2 percent of sales. This made possible a patronage return of 1.8 percent on purchases during the year.

Despite the considerable increase in facilities to serve Greenbelt families and the upturn in financial returns, member apathy persisted. After a quarterly meeting which drew only 22 members, the weekly newspaper lamented that, "The members are not really interested in trying to have their own business run as efficiently as possible. If they were, there would be adequate turnout for the quarterly meetings, and even for the Board meetings WHICH ANYONE CAN ATTEND."

For most meetings there were mailed notices at least 10 days in advance, newspaper stories, posters, telephone reminders, and sometimes even a sound truck. Noted speakers, vital decisions, entertainment, refreshments, and door prizes failed to attract the large attendance that a healthy cooperative is supposed to have. With a few exceptional intervals, poor attendance continued through the years to be a threat to the survival of the Greenbelt Cooperative as a member-controlled organization.

In 1949, the Board and management of GCS turned its energies to improving store operations. The variety store was moved into the old food store space. The greater space permitted expansion of merchandise lines, better control of shoplifting, and made shopping easier. The pharmacy was moved into space vacated by the variety store, and this made room for expansion of the restaurant space in the drug store.

The Board authorized the general manager to negotiate with the Public Housing Authority for the purchase of the land underneath the new super-market. This finally was achieved.

At the end of March 1949, GCS, in combination with co-op stores in Washington, D.C., Westminster, Maryland, northern Virginia and Hampton, Virginia, opened a warehouse in Baltimore. It operated under Eastern Co-operatives, Inc., as part of its wholesale structure. The facility had 11,000 square feet for storage and a railroad siding. This immediately reduced shipping costs which had been higher from Philadelphia and New York.

Later in the year Greenbelt joined with other area co-ops in a Potomac Cooperative Purchasing Association, to further reduce wholesale costs.

By this time GCS was listed as the fourth largest urban cooperative in the United States. The book value of its \$10 shares of stock stood at \$12.45. Operating margins improved to the point where the Cooperative fell into the 57 percent federal income tax bracket.

Of all its operations, only the bus line and the north end food store continued to lose money. The bus transportation service had operated at a loss every year from its start in 1945, for a total of \$8,500 by end of 1949. The Board continued it partly as a public service and partly as compensation for its inability to build a new store in the north end of town.

In October 1949, Frank Lastner retired from the presidency of GCS after serving in that capacity for just short of 6 years. Replacing him was Walter J. Bierwagen.

When the auditor completed his examination of the 1949 operations, he reported to the Board that "this is the finest internal control I have seen anywhere." Inventories were down but sales were up. Gross margins were down but net margins were up. The current ratio had improved to 2.25:1. Net worth had increased.

The sales figure for the year was \$2,199,818. Gross margin was \$545,547, or 24.8 percent. Salaries were down to 14.2 percent and expenses also were down — to 7.5 percent. The net margin worked out at 3.1 percent, and there was a 2 percent patronage refund.

The members, Board, management, and staff of Greenbelt Consumer Services, Inc., had successfully come through their first decade.

Early Expansion (1950-1953)

By 1950, with operations firmly in the black, the Board and management of GCS began looking beyond the town of Greenbelt. The Co-op Pantry truck served members and other customers in neighboring Berwyn. A small store had been opened by members in nearby Glenn Dale, with servicing out of Greenbelt. General Manager Ashelman was providing management advisory service under contract for the Westminster co-op and a co-op in Hampton, Virginia. Joint purchasing and some shared management services with co-op stores in Washington, D.C. had become beneficial.

At a Board meeting in April 1949, Director George Davidson raised the possibility of working with former Greenbelters who had moved to the Takoma Park area just northeast of Washington, D.C. to open a co-op store on New Hampshire Avenue. Nothing came of this suggestion until March 1950. This time the idea took hold and planning developed quickly.

The Board called a special membership meeting for April 19 to discuss expansion into the Takoma Park area. The announcement, in the form of a letter mailed to each shareholder, said in part:

"The most important item which the Board would like to discuss with you is its belief that it would be wise to open a new supermarket in the New Hampshire Avenue area. Many former residents of Greenbelt have purchased homes in the area and are anxious to secure some of the benefits of shopping locally at a cooperative store....We believe that several advantages will accrue to all members through the opening of an additional supermarket. It will enable us to buy merchandise more economically. Additional volume will also decrease the administrative expense percentage."

A motion was made to support the Board's plan for expansion. After many questions, considerable discussion, and defeat of a tabling motion, the resolution was approved by a divided vote.

The resolution had referred to "the Board's plan for expansion." Actually there was no thought-out plan at this point. The Board simply acted

more promptly than usual on the general manager's proposal. But all circumstances seemed to point to the advantages for reaching out beyond Greenbelt at this particular time:

- The impending sale of Greenbelt by the Federal Government raised some question about the Cooperative's security and potential for growth in the town.

- The start-up and growth of other consumer cooperatives in the Maryland-D.C.-Virginia area pointed to an opportunity for an entity like GCS with a decade of successful growth to fill a consumer need.

- Administrative and overhead expense for GCS operations in Greenbelt could be lowered if spread across stores in other locations.

- The new cooperative warehouse in Baltimore could provide lower wholesale prices if volume could be increased by more co-op retail stores.

- A larger organization would attract more highly qualified employees by offering opportunity for promotion.

- A favorable cash position and the willingness of banks to provide loans now that the GCS credit rating was solid encouraged investment in a larger operation.

- It was apparent that GCS members who had moved out of Greenbelt could provide a nucleus for a store in another locality, although no survey had been made at this time.

Still, the idea of GCS reaching out beyond Greenbelt had not been anticipated. It was received in the community with some shock and a great deal of opposition. The GREENBELT COOPERATOR immediately raised questions about how expansion would affect service in Greenbelt. There were complaints that if GCS had money for expansion it should be put to use locally, perhaps for recreation facilities. And some members were simply uninterested in looking beyond their own backyard. These same concerns about expansion would follow GCS into the 1980's.

While the Board agreed unanimously on the desirability of expansion and on Takoma Park as the preferred location, there were varying views within the Board about two questions.

- At what point should a drive for members and stock sales in the new area get underway and what methods should be used? Organizing Greenbelters into a cooperative had been straightforward. The town was small, compact, and was precisely laid-out. This made door-to-door canvassing, distribution of leaflets, and meetings easy. A sympathetic weekly newspaper supplied free publicity. From the start, there was little choice in local shopping. And the population was fairly uniform in age and economic level.

Takoma Park's potential was unknown. The geographic area was without boundaries, and contained a hodgepodge of random streets, all kinds of homes and commercial establishments mixed in with vacant spaces. Aside

from the families who had moved there from Greenbelt, there would be few households with any cooperative experience or even much information about co-ops. One big plus, however, was the fact that there was no modern supermarket in the vicinity of the site being considered.

- How would a store and members 10 miles distant from Greenbelt fit into the existing organization and control pattern of the Cooperative? To what extent should consumer-members in the Takoma Park area have a say about how the new supermarket in their area would be run? And what would their responsibilities and rights be in respect to the Greenbelt stores? Should they be able to elect a director from their local membership to the GCS Board, or just vote along with the Greenbelt members for election of all nine directors? Should Takoma Park members have separate meetings or join in the Greenbelt meetings? How would patronage refunds be computed — separate for Greenbelt and Takoma Park operations or for the combined enterprises?

There were no easy answers to these questions because GCS was pioneering a new field of operations. There was no pattern to offer guidance. Consumer co-ops in the United States at this period were single store or at least single location enterprises.

It was Ashelman's view that some adaptation of the structure used by large consumer cooperatives in Europe, and especially in Sweden, could be developed. The aim would be toward an organizational pattern that would encourage patron interest and participation at the local store level, and at the same time gain the advantages of large volume and centralized management.

The Board decided against launching a membership and stock share drive in the Takoma Park neighborhoods until the store neared completion, to avoid the possibility of such a drive losing steam unless the target of shopping in the new supermarket was clearly in view. However, a small committee of interested members who had moved to the new area from Greenbelt organized and began talking with community leaders about GCS plans.

Management and the Board agreed on a site being developed on the north side of New Hampshire Avenue, about half a mile northeast of the District of Columbia line. The Farm Bureau Insurance Co. [now Nationwide] agreed to a loan of \$100,000 toward opening costs. On June 1, 1950, the Board approved a lease with Kass Realty Co. for the new supermarket. Toward the end of the year, the Board appointed Director Robert T. Mitchell to be chairman of the promotional campaign in Takoma Park. The new supermarket was scheduled to open in August 1951.

The 17 months between the first public mention of GCS expansion to Takoma Park and the opening of the new supermarket bristled with controversy.

Most of the criticism focused on the Cooperative's expansion beyond Greenbelt. Many Greenbelters were simply uninterested in anything outside their community. Others were concerned that expansion and growth would be antipathetic to a democratically run cooperative. Still others felt that GCS had enough problems to deal with at home without taking on other enterprises. These views, however vocal they at times became, did not prevail, and plans for the expansion to Takoma Park went forward. It is interesting to note that in this period the debate within the community began focusing more and more on how a cooperative should be run, and less and less on the desirability of the cooperative itself. This marked a distinct shift from the trials of the past several years.

The debate over GCS expansion got another boost when Paul Ashbrook, a popular and successful agent for Farm Bureau insurance and a member of the Cooperative himself, suggested to General Manager Ashelman that GCS lease the entire shopping center at the New Hampshire Avenue location. When Ashelman took this idea to the Board at its January 26 meeting, he was asked by unanimous vote to explore this possibility. Two weeks later, armed with favorable consumer data and encouragement from businessmen, banks, and GCS store managers, Ashelman recommended to the Board that GCS open a combination variety/drug store in the same shopping center with the supermarket, concluding that such a venture "offers a good business opportunity; merchandise and personnel can be obtained, the promotional job would be made easier, and advertising costs could be spread."

The only serious caveat was the timing. Construction was at a stage where a quick decision would be necessary to avoid expensive changes in plumbing and wiring. A letter outlining the plan was immediately sent to all members. It called for a special meeting to discuss the proposal, stressed that prompt action would be needed to take advantage of the opportunity, and concluded that "with the freeze on new store construction, it may be a matter of years before another good opportunity for expansion develops."

At this meeting several days later, detailed information of the plan was distributed to the 30 or so members present. While several current and former Board members spoke in favor of the expansion, many members were wary. The same questions raised over the grocery store proposal were raised again: Would expansion endanger services in Greenbelt? Was the Board being business conscious rather than coop conscious? And would growth break down the democratic process upon which the coop was founded? The only new criticism was the valid complaint that the membership had been given too little notice (only a couple of days) before being asked to make such an important decision. Some saw this as a sign that the Board was trying to steamroll the plan through without giving the membership enough opportunity for input.

The Board, however, after a 2 hour debate, voted 6-3 in support of proceeding with negotiations for the variety/drug store in Takoma Park.

Two and one half weeks later, at the annual membership meeting on March 7, the members affirmed the Board's action by re-electing all six incumbents who were candidates for another term, and by voting down a motion to rescind the action on the Takoma Park variety/drug store. While dissenting views remained, the expansion went forward.

Looking back from nearly 40 years later, it seems clear that once expansion had been approved, there were two ways GCS could go. One was a federation of locally owned and locally controlled cooperatives, with centralized services for purchasing, accounting, training, promotion, etc. The overall servicing entity could be owned and controlled by the individual retail cooperatives. The other choice was one big cooperative. This was the path taken by GCS.

Meanwhile, other activities kept GCS busy. Despite a divided Board, continued member apathy, controversy about expansion, and anxiety about the future of Greenbelt, it had been a very good year for the Cooperative's operations .

Early in the year, a patronage refund of 2.1 percent went to those who turned in their sales slips. Net savings on sales totaling \$2,399,316 in 1950 were \$74,044 before income taxes and patronage refunds. Gross margin across the board for all operations was 24.5 percent.

On the down side, a bowling alley housed in the basement of the supermarket had failed, and the theater, facing increased competition from television, was forced to close 2 nights a week. GCS also closed two money losing operations: the traveling pantry and the bus service (which was picked up by the Town Council as a municipal responsibility).

Minutes of Board meetings during the spring of 1951 show some weaknesses. Committees appear to have disintegrated — there is no indication of an Education Committee reporting over a period of many months. It was becoming clear that GCS leaders often lacked knowledge and background on the organization. The need for orientation of newly elected directors was acknowledged by the Board, and plans were made for tours of the stores, study of each of the operations, and training sessions on what directors need to know.

Some of this had been tried in the past, but orientation for leaders became much more important in the following years as GCS grew in size and complexity. Although leadership development was recognized as a top priority, planning and accomplishment were somewhat sporadic.

In addition to these internal education efforts, there was the Cooperative Institute Association. Supported and controlled by the consumer co-ops in the New England and Mid-Atlantic states, this was a nonprofit, amateur,

and loosely organized group of cooperative leaders who offered a week of classes each summer in one of the land-grant colleges. In April 1951, the GCS Board designated Ben Rosenzweig as its representative on the CIA board.

It had been apparent for some time that GCS needed a promotional and educational employee on the staff. But, there was divided opinion among the directors as to whether such a position should be created, what the employee's role should be, whether this should be a full-time or part-time job, and whether GCS could afford such an addition to the staff.

Assistant General Manager Bassett Ferguson, Jr., stated the case for a full-time education position to the Board in April 1951:

"We get to the point where we save our money and lose our Cooperative.... GCS is entering a period of expansion, and throughout the country other cooperatives are very much interested and impressed with what Greenbelt is doing, but here in Greenbelt we have very few really active members, so few in fact that we have trouble finding people to serve on a committee. If we don't have interested members we don't have a cooperative. To a certain extent, expenditure for securing member participation is a necessary business expense. I don't think the present trend can be reversed through volunteer efforts alone."

After much discussion and wavering by directors, the Board authorized the position. Shortly after that, Edith Christianson came on the staff and was placed in charge of consumer education at the Takoma Park supermarket when it opened. GCS opened its cooperative supermarket on New Hampshire Avenue on August 29, 1951. The opening followed several months of intensive and very successful co-op educational efforts and stock sales to build a membership base in Takoma Park.

The new store offered a 90- by 75-foot selling area, a 93-foot meat counter, automatic photo-electric doors, powered checkout counters, self-service bakery section, and a play area for small children while their mothers shopped.

Customer response to the new Co-op supermarket was enthusiastic. The local newspaper called it "the addition of an important community asset."

On November 9, the Co-op variety/drug store in the new shopping center at Ethan Allen and New Hampshire Avenues opened.

By year's end, the new pair of facilities were contributing income for GCS. Changes in the Cooperative's operating statement and balance sheet were dramatic. Sales increased almost 30 percent, even though the Takoma Park additions counted for but a short period. Net savings were down, as expected in opening new stores. Here are the comparative figures for 1950 and 1951:

Condensed Income Statement

	<u>1951</u>		<u>1950</u>	
Sales	\$3,064,408	100.0%	\$2,399,316	100.0%
Gross margin	688,766	77.5	588,725	5.5
Salaries	421,648	13.8	329,338	13.7
Net operating margin	68,173	2.2	73,347	3.1
Store opening expenses	21,359	0.7	-	-
Net savings*	46,814	1.5	74,044	3.1

*(before income tax and patronage refund)

Balance Sheet as of December 31

<u>Assets</u>	<u>1951</u>	<u>1950</u>
Current assets	\$429,732	\$232,709
Cash on hand & in banks	\$110,927	\$ 59,743
Accounts receivable	12,807	12,024
Merchandise inventories	265,646	144,025
Prepaid expenses	15,182	9,464
Investments	17,650	5,598
Fixed assets	506,985	338,386
Total assets	\$945,367	\$576,693

Liabilities and Capital

Current liabilities	\$286,791	\$102,481
Long term debt	212,740	73,549
Net worth	445,836	400,663
Stock outstanding	329,861	272,435
Reserves	69,341	54,184
Net margin	46,814	74,044
Total liabilities and capital	\$945,367	\$576,693

In the report of the general manager, Ashelman wrote:

"Advantages hoped for to the Greenbelt stores as a result of additional volume from the new stores in Takoma Park are now being realized. One of these was the immediate strengthening of our buying position. Suppliers are now willing to grant us more favorable prices on many items we regularly purchase. Another is the reduction of our costs in handling groceries in the Baltimore warehouse of Potomac Cooperators, Inc.

"In business generally, margins of profit have been reduced, largely by the Office of Price Stabilization regulations, while at the same time operating expenses have been increasing. Our operating expenses, however, dropped from 21.4 percent to 20.3 percent. Total administrative expenses instead of being 3 percent of total sales as in 1950, dropped to 2.6 percent in 1951....

"Ten years ago we had only a handful of employees. Today several of these have risen through the ranks to very responsible positions, and in a growing organization there is always room for promotion. Where there is opportunity, your organization can keep and attract better people."

While critics would remain, it would seem that the case for expanding beyond Greenbelt had been justified.

Although Bierwagen, in his "From Your President" section of the annual report, stated that, "The Cooperative ended the year 1951 on a high point of success," and talked about "working together," the minutes show that he worked with a badly divided Board and continuing criticism from a vocal segment of the membership.

Dissension and divisiveness increased during 1952.

A group of individuals who had been using the GREENBELT COOPERATOR to attack the way the GCS Board and general manager ran the Co-op, decided they could do a better job than the incumbents. The paper's editor, Harry Zubkoff, ran a long editorial in the January 24 edition setting forth a minimum program any candidate for the GCS Board should offer. The next week's paper carried lengthy excerpts from the GCS bylaws regarding responsibilities of directors and the details of election procedures. The February 14 paper gave a nearly full page chart showing how each director voted on selected issues during the previous year, along with absences from Board meetings. The paper also announced the candidacy of Morris Soloman, staff member who headed the price checking committee and published the results regularly in the paper. Sam Schwimer, who had written several letters to the editor critical of the way GCS was operating, announced in a long letter to the editor that he would run for the Board.

At the annual meeting March 5, 1952, there were 14 nominees for the nine Board positions. Editor Zubkoff also ran as a write-in candidate. Three incumbents, including President Bierwagen were returned to the Board, but six positions went to newcomers, including Soloman, Schwimer, and Zubkoff. This was the first time a majority of the Board was changed at a single election, and the result guaranteed another sharply divided Board for the coming year.

This annual meeting, held in the theater and using a format based on results of a lengthy questionnaire earlier in the year, was an improvement over the previous three quarterly membership meetings. Two important agenda items were approved: amendments to the bylaws which raised the capital stock limit to \$550,000, and changing the beginning of the fiscal year to February 1. Although it was defeated, David Reznikoff introduced a detailed resolution to have GCS "immediately dispose of all business enterprises which are not located within... Greenbelt...by sale of said business enterprises to a corporation which shall be cooperative in nature and which shall be owned and controlled by residents of the community in which said

business enterprises are located...." Pretty much the same members spoke against raising the limit on sale of capital stock and in favor of restricting GCS to Greenbelt.

The Board met twice in June to review GCS options regarding government sale of commercial areas in the town. During this period, the general manager and the Cooperative's attorney learned that PHA would require purchase of all the commercial property as a unit and not just any part of it, and that the price would come out at \$629,000. It was agreed that this price was higher than GCS could manage, and would amount to as much as \$17,000 more annually than the current rental cost. It was noted that the Cooperative's leases had 4 1/2 years to run, no matter who owned the property. GCS, however, remained open to possible further negotiation either through Greenbelt Veterans Housing Corporation (GVHC) or directly with PHA.

A special membership meeting on June 27 attracted a quorum, unusual when so many special and quarterly meetings had failed to achieve a quorum. Members present approved the Board/management recommendation to not purchase the commercial property at the price asked by PHA. They then turned their attention to a recent controversy which had arisen over the filling of a Board vacancy.

The incident had started at a June 6 Board meeting when Charles Bicking, a director from Takoma Park, was dropped from the board because of excessive absences. The Auditing Committee had advised that it was customary to fill Board vacancies by putting the selection on the agenda for the following meeting and considering runners-up from the previous election. After some discussion, it was instead decided to fill the vacancy that night, even though only five directors were present, and a Mrs. Ritchie was suggested. Although protests were made that consideration should be given to a candidate representing the Takoma Park area, and that the appointment should be debated and approved by the entire Board, Mrs. Ritchie was approved by a 4-1 vote.

At the June 27 meeting, the Auditing Committee distributed a 4-page report reviewing the sequence of events from the determination that Bicking had forfeited his directorship due to excessive absences, to the selection of Mrs. Ritchie to replace him. The report cited two basic reasons for finding the procedure improper and explained them in detail. In summary, they were:

1. "Not all the board members were advised in advance that a vacancy existed and an election would take place. A careful check of the 27 times that the board has filled vacancies since the Co-op was organized in 1940 shows that the board never filled a vacancy without advance notice to board members of the existence of the vacancy....The agenda as accepted at the beginning of the board meeting did not include the election, and two directors left the

meeting on GCS business without knowing that an election was impending. Even the president of the Co-op did not know that an election was being held....

"...in filling a vacant directorship, the board is taking over a function which normally is the prerogative only of the membership...

2. "In filling the post vacated by a director from the Takoma area, no consideration was given to seeking qualified candidates from that area. The remaining Takoma area director was not present, nor were any residents from that area. Although a candidate from the Takoma area received more votes at the annual meeting than the new director selected by the board, his name was not considered...."

The report pointed to three consequences of the action by the board's minority:

1. "Alienation of a considerable number of members in the Takoma area....at a time when sales in Takoma have been advancing steadily and there is every evidence that the Co-op is winning strong consumer support in the area.

2. "Lessened confidence in the board at a time of important decisions....

3. "...If the action should stand unchallenged, a most unfortunate precedent should be established for future elections....We do not believe that the members should view lightly a departure from democratic tradition."

Members at the meeting agreed with the Auditing Committee's report, and adopted a resolution which called for the Board to correct its mistake, and refill the vacated seat, this time going through proper channels. At a meeting on July 11, after discussing an opinion by the Cooperative's legal counsel, the Board heard a three-page statement by Director Walter which pointed out that no Board member's personal interest was more important than the good name of the Cooperative, and offered four legal options to offset some of the damage done. The simplest of these was a letter of resignation by Mrs. Ritchie. She asked for more time to talk with her friends before responding.

Finally, on July 18, her letter of resignation came. In it she maintained that she had been legally selected to fill the Board vacancy, pointed out that "it has not been pleasant to be at the center of controversy," and concluded that "as of now it seems that the best service I can perform for the organization is to offer my resignation."

At a meeting on July 31, 1952, the Board split 4-4 on two candidates from Takoma Park. A meeting August 8 could not resolve the impasse. It was not until a special meeting on August 14, that the Board agreed unanimously on Frank W. Lewis, who lived in the Takoma Park area.

It had taken more than 2 months to resolve a question of Board control. There still was a split Board, but several determinations had been made:

- A quorum of members could be counted on to respond in a crisis.
- The filling of Board vacancies between annual meetings would be fair and democratic.
- The policy of expansion would continue, but attention would have to be given to some kind of geographical representation for the membership.

GCS's early expansion into Takoma Park showed dividends by the end of 1952. Net working capital increased from \$127,137 to \$172,291, the current ratio improved to 1.64 from 1.47, and a patronage refund of 1.2 percent was declared on 1952 purchases. All operations except the convenience store in the north end of Greenbelt operated in the black. Sales in the Takoma Park supermarket exceeded those in the Greenbelt supermarket, and continued to show sizable increases despite a temporary setback when a new Safeway opened nearby; that this setback was only temporary helped put to rest the nagging question in Greenbelt about whether success there was due solely to absence of competition within the community.

By the end of 1952, Greenbelt Consumer Services, Inc., seemed committed to the path of expansion. General Manager Ashelman said repeatedly and with increasing emphasis that the future for GCS, and for all consumer cooperatives, was dependent on growth and expansion, increasing the types of merchandise and services available, and consolidating smaller organizations.

In his annual report to the membership for 1952, he noted that, "Takoma stores have strengthened our operating picture. Another store would help immensely...another \$3 million volume would save us about .5 percent in our present stores. Additional stores would give us still greater efficiency, and would soon put us in the position where we could take real leadership in bringing better values and services to consumers."

The Board was persuaded, at least in principle, and agreed to explore more expansion possibilities. Objectives, methods of financing, and a rough timetable were put into writing for future guidance.

The December issue of the *Co-op Newsletter* carried a lead article explaining that chain supermarkets make their profits by increasing the number of retail outlets, which enables them to buy in larger quantities and to spread overhead costs. It discussed in some detail the possible "formation of an area management corporation" for cooperatives, which would consist of numerous local cooperatives under the management of a central organization. It was even speculated that such an umbrella cooperative "might purchase an outright chain, turning it into a co-op."

With the policy of expansion gaining wider and wider acceptance, emphasis began to shift to problems of organization and control. Director Frank Lewis reported in the fall of 1953 that, "Takoma Park members are very much concerned with the organizational structure (of GCS) and how to achieve membership participation in an expanding organization." The Board was holding some of its meetings in Takoma Park by this time, and a membership meeting as well. But talk about GCS stores in other locations brought to the fore concerns about the geography of meeting places and communication with members, and questions about area representation on the Board and committees. Would expansion lead to one big cooperative spread across several locations, or several small cooperatives under some sort of a protective umbrella?

Meanwhile the policy of expansion still had its critics. Some felt that GCS was jumping the gun. Rather than opening new stores and then recruiting members, they felt that GCS should first recruit new members, thus raising a large portion of the necessary capital, and only then open new stores. These critics felt that local members were responsible for stores; thus, expanding into an area before establishing a membership base was seen as putting business concerns before cooperative principles.

But expansion went ahead. Several possible projects came up for attention in 1953, most of which were abandoned for various reasons. Rochdale Cooperative, a D.C. based organization, met with the Greenbelt board to consider a jointly-operated supermarket in Washington, but the project was eventually dropped. GCS also put in an unsuccessful bid to purchase another 6.5 acres of land at the intersection of Edmonston and Branchville Roads, about half a mile west of Greenbelt.

In Shirlington, Virginia, just across the Potomac from Washington, a group of cooperators had opened a department store in 1948 with financing from CDC. By spring of 1953, this venture was in financial trouble and its board decided to dispose of it. A number of cooperative leaders, both national and local, urged GCS to take over the Shirlington department store, arguing that its closing would hurt the business reputation of the consumer cooperative movement. The GCS Board voted to make an offer on the store, but this too fell through when a commercial department store corporation made a better offer.

The Takoma Park property, meanwhile, was the site of two successful expansion projects. GCS signed a lease for the lower level of the building which housed the variety/drug store, just about doubling the floor space. And on May 15, GCS took over the lease of a Sunoco service station located on the northwest corner of Ethan Allen and New Hampshire Avenues. Weekly gasoline sales before the changeover were \$2,500; under GCS management they jumped to \$4,350. Weekly sales of automotive supplies went

from \$700 to \$1,600. And grease jobs moved from one per day to between three and eight per day. Combining a supermarket, drug store, variety store, and service station at one location proved to be a strong marketing strategy, and became the preferred pattern in future expansion projects: one-stop Co-op shopping.

In addition to expansion plans, 1953 saw operations going through their usual ups and downs. The Takoma Park variety/drug store space was used for three innovations. A shoe store and a men's clothing store operated for a considerable time, but ultimately discontinued. Longer lasting was the very popular community meeting room. Not only did this room meet a local need, it also brought potential customers into the store; many of these were newcomers to the cooperative idea who eventually became members. This meeting room was deemed such a successful public relations feature, that most future GCS stores included one if at all possible.

Another Co-op innovation involved handling general merchandise and other big-ticket items. GCS arranged for shoppers to order CO-OP brand refrigerators and other large appliances direct from the factory at considerable savings. Samples items were displayed in the stores. Co-op was the only store in the Washington area to offer this service.

Internally, an employee retirement and profit-sharing plan was instituted; and the 1953 director's elections enlarged the representation from Takoma Park.

Meanwhile, the Federal Government agreed to the sale of most of the Greenbelt housing, including the shopping center, to the mutual housing group, Greenbelt Veterans Housing Corporation. GCS agreed to lease the space it needed from GVHC.

By the end of March 1953, negotiations with PHA for purchase of the land underneath the Greenbelt supermarket and adjoining parking lot reached a satisfactory agreement, and the sale was finalized. GCS obtained financing for the purchase from the Farm Bureau Insurance Companies.

According to the treasurer's report, 1953, " was one of [the] Cooperative's best. Sales increased 4.1 percent over the comparable period a year ago and net savings increased 50 percent. All-time records were established during this year for sales, net savings, net worth, net working capital, capital stock outstanding, number of members, and patronage refunds declared. Our current ratio (is) 1.95. A year ago it was 1.64. In 1951 it was 1.47....GCS now has the enviable record of having paid 5 percent dividends (on stock shares) for 13 consecutive years."

The patronage refund was 1.9 percent. As in previous years, there was a choice of taking cash or applying the refund toward additional shares of stock: the majority opted for stock.

In terms of membership and volume of business, Greenbelt Consumer Services, Inc., was at this point the largest consumer cooperative in the country.



Wheaton and the Co-op Congress (1954-1955)

Ashelman had been continuing his search for promising store locations, and in January he took the Board to the Wheaton triangle in Montgomery County, Maryland. Here, on a main traffic artery feeding into Washington, was an undeveloped tract of a little more than four acres on which Ashelman proposed a one-stop Co-op shopping center. It would have a large supermarket, drug store, and auto service station, with a number of small shops which GCS could lease out to services that would round out the center. The Wheaton triangle was a relatively new commercial area where three major streets intersected, and it had obvious growth potential as it was in the center of a large middle-class residential area. Some Co-op members had already moved into the neighborhood from Greenbelt and could be counted on to provide local leadership.

The Board liked the location, and 3 weeks later gave Ashelman the go-ahead. By the middle of February, investment people from Farm Bureau Insurance had examined the project and agreed to provide financing.

Given this continuing expansion, the Board had faced up to the need for changes in the Cooperative's organizational structure to assure fair representation and democratic control by the members in the geographic expansion. A committee was appointed to recommend a structure that could handle the expanding organization.

This committee, along with GCS management, studied the organizational structure of large consumer cooperatives in Europe and the districting patterns of American farm cooperatives. The concept finally agreed upon called for local organization of members around the cooperative store or shopping center which they patronized. Members in each area would then elect representatives to a local council, and these representatives from all the councils would comprise the GCS Co-op Congress. This body would meet periodically to bring together the ideas and concerns of the membership in the diverse areas. It also would report back through the representatives to the membership on GCS goings-on.

Its most important task, however, would be to develop and select candidates for the Cooperative's Board of Directors. In a compact community like Greenbelt, members were acquainted with candidates for the Board. With the Cooperative membership growing and spreading geographically, however, there was less opportunity to know who were the best candidates among the entire membership. The Congress members, as community leaders, would thus recommend candidates for the GCS Board. The Congress could also require that the Board candidates they selected be given training sessions in cooperative principles and background, the responsibilities of a director, how to read a balance sheet and operating statement, etc.

In addition to the Congress structure, the 1954 package of bylaws amendments contained some other significant changes. One was a switch from the Hare system of proportional representation voting to majority voting. Another change was staggered terms of office for directors. Instead of electing all nine at one time for 1-year terms, the revised bylaws provided for members to elect directors to 2-year terms: four, one year and five, the next. These longer terms gave a director more time in service to use what he had learned in the first few months on the Board. Staggered terms also provided more stability and continuity.

These bylaw amendments were presented to the membership at the April 14 annual meeting. The changes were adopted, and scheduled to go into effect when a third store area (Wheaton) achieved at least 200 new GCS members.

In other areas, Greenbelt's cooperative weekly newspaper switched from free home delivery to paid subscriptions and changed its name from the GREENBELT COOPERATOR to the NEWS REVIEW. From this point on, although the paper was still the product of the Greenbelt Cooperative Publishing Association, its staff devoted less space to GCS and to cooperatives in general. This was mainly due to a greater preoccupation with the town's growth and interaction with the surrounding county and State of Maryland, now that Greenbelt was no longer a government housing project.

Opening the Wheaton Co-op Shopping Center was front page news in the Washington, D.C., newspapers. More than 20,000 enthusiastic visitors crowded into the the area for the opening on December 12, 1954.

The Wheaton store was a pioneer in "one-stop shopping," with a food market, general merchandise sales, pharmacy, service station, and seven independent specialty shops all in one place, with parking for 350 cars. Special features included a "Food-O-Mat" (an entire wall of canned and packaged groceries stocked automatically by specially designed conveyor belts that fed items into slanted slots), rest rooms for customers, a community meeting room, and a snack bar under a hanging canopy in the center of the store. The store had 25,000 square feet of open shopping space.

The Co-op pharmacy with a separate entrance onto the parking lot offered a 24-hour prescription service for the first time in Montgomery County.

During opening week, sales in the General Store (supermarket) exceeded \$100,000, and for the first 5 weeks sales were over \$350,000. This was a Washington area record. The Co-op service station pumped more than 55,000 gallons of gasoline in that period, one of the largest opening volumes for any station in the area.

Although this third Co-op shopping center was only in operation 6 weeks before the close of the fiscal year, it substantially improved the GCS operating statement and balance sheet. Current assets doubled for 1953. Net worth gained \$115,000. The current ratio for the year was 1.7, compared to 1.9 for 1953. And a patronage refund of 2.1 percent was declared for purchases in 1954.

Within a month of the Wheaton opening, membership in that area passed the 200 goal. In compliance with the new bylaws, the Board declared the new organizational structure operational, and determined that the first area meetings for the new Co-op Congress would be held in April 1955. Each delegation would be entitled to elect one Congressman for each 200 members in its area. Wheaton got four Congressmen, Takoma Park nine, and Greenbelt eleven.

The first meeting of the Congress convened in the Takoma Park meeting room April 27 and brought representative democracy to GCS. Although there was criticism that individual members no longer had direct input, there was general recognition that the large membership and the geographic spread of the Cooperative precluded the "town meeting" democracy which Greenbelt residents enjoyed in the early years.

"Exploratory" describes the first year of the Congress. There were no examples among other American consumer cooperatives to provide guidance. The Board and management arranged to have Richard Carlson, management advisor for the Cooperative League of the U.S.A., look at the Cooperative's structure and recommend a role for the Congress. Out of this came the following objectives and responsibilities:

Congress objectives:

1. To maintain and promote channels of communication between the Board and the membership.
2. To increase member participation and interest in Co-op activities.
3. To develop the best possible candidates for the Board.
4. To give the Board advice and counsel on matters referred to it.

Congress responsibilities:

1. To select candidates for the Board.
2. To appoint a Supervisory Committee.
3. To call special membership meetings when necessary.
4. To encourage development of consumer advisory committees.

To flesh these ideas into workable procedures, the Board appointed a Committee on Congress Functions and Procedures. This Committee was continued for most of 1956 and its work resulted in a detailed manual which served for more than a decade without major change. Details of this manual included the following:

- During each quarterly meeting, time would be set aside for the area representatives to question individual directors about GCS operations, their opinions, and their votes at Board meetings. It was made clear from the beginning that strict rules would govern the session. No speeches or opinions by the questioning representatives. Time limit on each question. No second question until all have had a turn at a first question. No insults or innuendos. The purpose was to enable members of the Congress to obtain information about how the Cooperative was being run and how well the individual directors were doing their jobs. Discussion and/or any action by the Congress would be held until after the question and answer period closed.

- Congress representatives elect two very important committees. An Election Committee, comprised of three Congress members and two non-Congress members, would oversee all aspects of area, Congress and GSC elections. A Supervisory Committee, also with three Congress and two non-Congress members, would replace the Auditing Committee as organizational watchdog, monitoring Board actions, and guarding against impropriety, willful neglect, or illegality.

Henry Redkey was chairman of this committee, and was elected first Speaker of the Congress. The Congress was up and running just in time to deal with a burst of further expansion.

The financial position of GCS offered a sound base for the continuing expansion. Net worth was \$848,970 at the end of fiscal year 1955. The current ratio was 1.5 and long term debt was slightly over \$300,000. Sales were almost \$9 million and net savings were \$198,129, or 2.2 percent of sales. There was a 1.8 percent patronage refund, and the usual expected 5 percent dividend on shares of stock.

Exciting Years (1956-1957)

In mid-1955, Ashelman brought to the Board a proposal to build a fourth Co-op shopping center. This one would be in an older section of Takoma Park, about 2 miles north of the New Hampshire Avenue shopping center.

The Board voted its approval, and management negotiated the purchase of about 2.5 acres through one of the Cooperative's wholly owned subsidiaries, Consumers Realty and Equipment Corporation. The price of the land was \$150,000. Although the site was adjacent to existing shops, it was residentially zoned. Securing a zoning change held up the project for some months, so that by the time financing was obtained, construction completed, and the shopping center opened for business, it was not the fourth but the sixth Co-op supermarket.

Meanwhile, management and the Board undertook a schedule of projects and activities undreamed of by the earlier Greenbelt pioneers. This frenetic period saw GCS's Maryland charter amended to permit up to \$50 million in stock sales, with a removal of the \$1,000 limit on individual stock holdings. Membership doubled and then tripled. General Manager Ashelman and the Board took the Cooperative into the real estate market and financing arrangements at a fairly high level.

Within a period of 3 years GCS:

- built two additional Co-op shopping centers and had two more on the drawing board;
- expanded and remodeled two existing supermarkets;
- built a new auto service center in Greenbelt;
- built and leased to Nationwide Insurance Company a building for its auto claims office;
- arranged mergers with two other consumer cooperatives, which would add three more stores;
- explored the possibility of buying a controlling interest in a bakery; and
- provided a team to launch a network of cooperative supermarkets in Puerto Rico on request from the Commonwealth Government.

Another distinction of this period of growth was a stable Board of Directors. This probably was the result of three factors: the selection of a slate of candidates by and from the GCS Co-op Congress, the departure from the Hare system of proportional representation in voting, and the increased work load for directors which would scare off all but the most serious candidates.

In 1956 the Board arranged to have each department manager present an annual in-depth written and oral report on his division. Directors found this gave them a better overall view of operations, provided an opportunity to hear from the department heads, and avoided surprise emergency decisions because planning could be done on a longer time frame. The Board required that management reports be mailed out ahead of time in order for directors to come to the meetings informed and prepared to discuss and take action.

The Board also saw to it that the monthly financial summaries were mailed to all area delegates in the Congress.

Operating and financial figures again showed satisfying improvement in fiscal year 1956. Net worth topped the \$1 million mark at \$1,099,173, the current ratio was 2.6 and the patronage refund 1.4 percent. The Annual Report stated that GCS "could borrow a half million dollars on short notice from a strong bank without collateral if such a sum were needed."

The Washington newspapers were beginning to report GCS's growth in their financial section. An editorial in THE WASHINGTON POST noted that, "This cooperative movement has made ... an exceedingly valuable contribution to American democracy. It has not only given many people a stake in the economy which they would not have had otherwise, but it has demonstrated the feasibility of applying democratic controls to economic affairs."

Ashelman, by this time continually looking for additional expansion sites, found a new shopping center under construction on the main street in Rockville, Maryland, in late 1956. A decision to open a Co-op supermarket was hurriedly approved, and May 1, 1957, was set as the opening date. GCS staff and volunteers undertook a "get-acquainted" campaign and membership drive in the community by March 1. There were already some members of the Wheaton Area Council, including three representatives in the Congress, who lived in Rockville. This aided acceptance of the new store and quick organization of a Rockville area delegation in the Congress.

The new supermarket contained 17,000 square feet, plus 5,500 in the basement for grocery stocking and a community meeting room. The market opened with six checkout stands, a co-op information booth, and a "kiddie corner" to make shopping easier. Leasehold improvements were estimated at \$160,000. The shopping center had parking for 1,100 cars.

Several other projects shared attention with Rockville during this time.

Ashelman, with Board approval, had been providing management

services to Westminster Cooperative, Inc., for several years. Westminster was a farm marketing center about 35 miles north of the Capital Beltway which encircles Washington. This Cooperative, which had been formed in 1937 by a group of farming families struggling to pull themselves out of the Great Depression, had about 800 members.

Back in September of 1955, the Westminster board had approached GCS about the possibility of merging operations. Members in Westminster wanted a new and larger store, but could not manage it with the resources at hand. At a November meeting, the GCS directors agreed unanimously to a merger on three conditions: Westminster members would have to subscribe to \$50,000 worth of GCS stock; they would agree to have their Board continue in an advisory capacity; and a lease for a new supermarket and service station would have to be obtained in a projected shopping center on the edge of Westminster.

By March 1956 the lease was approved, and a month later the Westminster members had fulfilled their membership requirement. The merger became effective October 1, when GCS purchased all the assets and assumed the liabilities of the Westminster Cooperative.

In the city of Greenbelt (no longer just a town), the long-promised improvements and expansion to the Co-op supermarket became reality. The February 1956, issue of the *Co-op Newsletter* announced plans to expand GCS's present supermarket building. It would be remodeled to include a big food store, a large variety store and a drug facility, patterned after the phenomenally successful 'general store' in Wheaton. Improvements nearly doubled the floor space, added an automatic electric-sensor door and a covered loading area at the southeast corner, a Food-O-Mat along the west wall to keep restocking operations out of the aisles, new lighting, full air conditioning, and a much larger parking area. On the lower level the bowling alley remained open, and much needed office space was added for the growing staff. The remodeling package totaled \$200,000.

While the supermarket was expanding, Greenbelt was divesting itself of less successful enterprises. After years of operating the makeshift Northend Store at a loss for the convenience of the local neighborhood, the Board closed it down. The Greenbelt Theater was sold to Jack Fruchtman. The barber shop, beauty parlor, news/tobacco store, valet shop and shoe repair were turned over to their respective managers practically free of charge when the leases ran out, with the proviso that current employees be kept so far as possible.

The Co-op service station posed special problems. More space was needed but the location made expansion impossible. So with the expiration of the lease, GCS built a new station on Southway, at the entrance to Greenbelt from the Baltimore-Washington Parkway and from the Greenbelt Road to NASA and to Berwyn on Route 1.

While all these projects were reaching completion, a Co-op shopping center on Piney Branch Road in Takoma Park began to take shape. This was another one-stop Co-op shopping center which included a supermarket, drug store, service station, and community room, along with four small shops leased out to individual proprietors.

The supermarket offered a Food-O-Mat along one wall, which dropped another can into the slot when the customer removed one. It had a kiddie corner where mothers could park small children while shopping, a snack bar, glassed-in meat cutting area, co-op information desk, and especially wide aisles. The community room was equipped with a demonstration kitchen where weekly activities involving local homemakers could be held.

For the open house on September 22, 1957, the Cooperative published a 12-page supplement to THE WASHINGTON POST. Besides advertising merchandise on sale, there were two full pages of photographs of the center's features — paid for by the equipment suppliers and construction subcontractors. Articles by Murray Lincoln, Ashelman, and President Bierwagen explained what a consumer cooperative was and told the story of the growth of GCS.

Also for this occasion, Ashelman published and distributed an 8-page brochure to merchandise suppliers, urging their participation in the "week-long gala promotion" for the opening of the center. Nationwide's Murray Lincoln was the special guest for the ribbon cutting. This had special significance because Nationwide was providing the financing for the center. Before Piney Branch opened, GCS had arranged for Nationwide to buy the entire shopping center at a price of \$705,000 for the building and \$200,000 for the equipment, and then lease it back at \$59,000 a year for 20 years. This lease, like most GCS leases, had a renewal option, on the assumption that the neighborhood would not change and that the Co-op supermarket business would go on for decades at that location.

"Sale and lease back" was management's new pattern for financing and it was used from 1956 on for all its facilities wherever possible. The rationale was that the Cooperative's cash would yield a higher return if invested in merchandise inventory than in real estate. It also released cash that could be used in negotiating for new store sites. Sale and lease back was becoming the preferred method for all the grocery chains and for many other lines of retail business. The renovated and enlarged Greenbelt supermarket and headquarters building was sold and leased in 1956.

Greenbelt Consumer Services was becoming such a success story that a steady stream of VIPs from other parts of the United States and of the world came for tours of the stores and to participate in meetings and other activities. During 1956 alone, GCS staff, Board, and members played host to several hundred foreign visitors. These included government officials, labor leaders, journalists, officials of cooperatives, and students. They came from Ethiopia,

Turkey, Switzerland, Ceylon (Sri Lanka), Israel, Indonesia, Thailand, Pakistan, Viet Nam, Japan, Denmark, India, Finland, South Africa, France, New Zealand, Austria, Cambodia, Sweden, West Germany, Philippines, and Central and South America.

During this time and over a period of many years, the Greenbelt Co-op participated in an exchange program for training employees in cooperative-owned stores in several countries. In response to a request from the Cooperative League of the U.S.A., General Manager Ashelman with Board approval set up a training program in the GCS supermarkets for several employees of consumer cooperative stores in Puerto Rico. This experiment proved so satisfactory that the Governor of Puerto Rico proposed a contract which would have GCS allow Ashelman and other personnel from Greenbelt Co-op to invest time in developing a comprehensive program of cooperative stores and supermarkets for the Island. The contract took Ashelman and others to Puerto Rico for short periods during 1955-57. This involvement helped build a cooperative enterprise that lasted for many years.

Long-time Personnel Director Kay Hildeen recalls that, "our international involvements really enriched staff at all levels. It raised the sights of our store employees to learn that GCS had big and interesting cousins across the sea."

By the end of 1957, customer growth at Takoma Park made the Co-op's facilities at that location obsolete. Parking space was totally inadequate, the supermarket needed upgrading, and the corner service station was too small. Management had the Board's approval to build a much larger Co-op shopping center across the street on the southeastern side of New Hampshire Avenue.

Other plans called for opening a Co-op shopping center at Penn Daw on Route 1 south of Alexandria, Virginia, purchasing controlling interest in a bakery and constructing additional auto repair bays at the Wheaton service station.

Sales had taken a great jump in fiscal year 1957. Net income increased, but income as a percentage of sales showed no gain. Net worth improved by more than \$100,000.

Toward the end of the year, GCS entered into a management contract with Rochdale Cooperative, Inc., of Northern Virginia, thereby eliminating duplication in staff and offices and resulting in economies for members of both organizations. This was a clear step away from the idea of a little storefront co-op on a back street, staffed by volunteers, and featuring natural foods and lots of social philosophy. There were still some members dedicated to "small is beautiful", and the leadership still took time to offer help to start-up cooperatives in other areas, but GCS was headed for the big time.



Aiming for the Sky (1958-1961)

As GCS entered 1958, several expansion projects were already in the planning stages or underway, and there was much more to come. Ashelman had advised the Board that the goal was to "make an impact on the Washington market area." At this time, the supermarket industry in and around Washington was dominated by Safeway, Giant, and A.& P.

Management's appetite for growth increased as the decade of the 1950s moved into the 1960s. An article in the trade magazine *FOOD TOPICS* for November 1960 titled "Co-op Campaigns To Outdo Chains", stated:

"General Manager S. F. Ashelman, Jr., ventures the guess that his is the fastest-growing retail business in the Metropolitan Washington Area. Currently, Co-op is scrambling as fast as it can to achieve a sales volume that will put it on an even basis with the competition it worries most about — Giant, Safeway, and A&P."

Of the expansion projects laid before the Board at the beginning of 1958, the most significant was probably the Rochdale merger. It signaled the outreach of GCS beyond the borders of the State of Maryland for the first time, and it brought into the organization experienced, dedicated employees and leaders whose influence helped shape the consumer cooperative movement in the Washington area for the next three decades.

Rochdale Cooperative, Inc., had its beginnings in the neighborhood and church-based buying clubs which had sprung up in the Washington D.C. area in the early 1930s. By 1937, several of these clubs had opened up a store in Georgetown, and expansion continued after that, albeit at a very slow pace. In 1958, when the merger was agreed to, Rochdale had a small, walk-in neighborhood market on Quaker Lane, in Fairlington; a supermarket on Broad Street, in Falls Church; a service station adjacent the Falls Church store; and a service station on Virginia Avenue NW, in a part of Washington known as Foggy Bottom. William Petri was manager. Rochdale President W. Gifford Hoag, who later served the Greenbelt Cooperative in many capacities, remembers that prior to the merger some members had apprehensions about

GCS, regarding it as more commercial oriented and less cooperative minded than Rochdale.

Rochdale Cooperative listed assets amounting to about \$600,000, against liabilities of about \$390,000, and a net worth around \$210,000. Sales had been dropping in all the facilities, and sale of the service station on Virginia Avenue had already been decided.

In October of 1957, the Rochdale and Greenbelt Cooperatives had signed a management contract which consolidated bookkeeping, auditing, some buying arrangements, and supervisory services. In June of 1958, the Rochdale Board recommended to its membership that the two organizations officially merge. It gave the following reasons for the proposal:

- 1 "Improvement of our chances for a more consistent patronage refund on your cash register slips. GCS refunded \$82,259 last year at the rate of 1.2 percent of sales. It has paid patronage refunds and 5 percent dividends on stock every year since 1940.
- 2 "Improvement of our chances for maintenance and expansion of modern facilities. We will have a combined net worth of nearly \$1.2 million. This will put us in a favorable position for securing leases and financing future development.
- 3 "Larger organization which can employ more specialists, wield greater bargaining power with suppliers, and more rapidly engage in production of items where better quality can thus be secured or costs reduced."

Rochdale members voted 74-1 to merge with GCS by exchanging stock shares on a one-for-one basis. The book value of Rochdale shares at that time was \$10.91, and for GCS shares \$12.00.

Management began putting the two organizations together. Some immediate improvements went into the Fairlington and Falls Church stores and the Falls Church service station. Planning started for expansion of the Falls Church shopping center. Rochdale held its last annual meeting December 3 and made preparations for area representation in the Co-op Congress. Falls Church and Fairlington became separate areas to represent the former Rochdale membership.

The merger with Rochdale Cooperative, which was incorporated in Virginia and had operations and membership in Virginia and the District of Columbia, required GCS to file with the Securities and Exchange Commission (SEC). Until now, membership shares (Class A) and non-member shares (Class B), had been sold only in Maryland, where GCS was incorporated.

The offering circular dated September 25, 1958, noted that, "These securities are offered pursuant to an exemption from registration with the Securities and Exchange Commission." This initial circular was an offering of 30,000 shares, \$10 par value.

"Both the A and B stock are common stock. They are identical except that A stock carries the right to vote. One person can hold only one share of A stock (a husband and wife can hold two jointly). No one person can hold more than \$5,000.00 of stock in the corporation. No other type of stock has ever been issued by Greenbelt Consumer Services, Inc. The first share of stock issued to any person is A (Voting) stock. All subsequent shares of stock purchased are issued as B (Non-Voting) stock. A and B shares would share equally in the event of dissolution. Dividends are non-cumulative. The rate is established in the bylaws at 5 percent per annum on the par value of the shares. Shareholders desiring to dispose of their shares must first offer them to the issuer which has a three month first option to purchase them. The Board of Directors is authorized to cancel shares issued to shareholders whose whereabouts have been unknown for seven years. The Board of Directors has the authority to repurchase outstanding capital shares when deemed in the best interests of the issuer."

The following year GCS moved to full registration, and from then down through the years until 1980, re-registration with SEC and publication of disclosure circulars was a regular and increasingly expensive requirement in order to secure members and increase equity capital.

While the merger with Rochdale took shape, GCS's Board and management also moved ahead on planning the layout and financing of the large new Takoma Park shopping center. The site comprised 14 acres of undeveloped land on a deep fill. The property had a little over 700 feet of frontage on a 4-lane thoroughfare which led directly into downtown Washington. A newly erected Hot Shoppe restaurant occupied the corner lot adjoining the proposed shopping center.

Back in 1956, General Manager Ashelman had obtained unanimous approval to invest \$50,000 in a new corporation, Takoma Park Shopping Center, Inc. The agreement gave GCS a 50 percent ownership of the tract of land, with the original owner retaining the other 50 percent. By agreement, GCS assumed majority control of the proposed development, with two board members plus Ashelman and Comptroller Robert Morrow from staff holding four positions on the corporation's board of seven directors.

In mid-1957, GCS secured \$70,000 in financing from Southern States Cooperative toward construction of a 6-bay service station which opened for business on this new site October 18, 1957. Sales immediately doubled what the earlier Takoma Park service station took in. GCS also constructed a small office building for about \$145,000 on a part of this land and leased it to Nationwide Insurance Company for a claims center and other business. This was completed in mid-1958.

The new shopping center was designed with a 40,000 square foot Co-op supermarket, and 20,000 square feet of rental space for 12 small shops.

The layout for the supermarket was radically new, with aisles radiating out in a fan pattern from the checkout counters. The plan called for an in-store bakery, drugstore, and variety items sections. All the latest supermarket innovations were included, such as the glassed-in meat-cutting room and self-service displays, large community meeting room with kitchen on partial second floor, customer rest rooms, snack bar, and Co-op information booth.

Since the building was on a gentle slope, it was easy to provide basement space for a bowling alley. Parking space was almost unlimited.

Potential annual sales volume was estimated at \$3 million, based on a commercial survey which showed a daily average traffic count of 47,000 cars, and a stable population of 26,000 white collar workers and skilled artisans within a half-mile radius and more than 78,000 within a 2-mile radius.

This "Super Co-op" opened September 20, 1960. It was an impressive step ahead for consumer-owned marketing in the Washington metropolitan area.

It did not, however, live up to its rather glowing expectations. Construction had not moved as fast as anticipated. There were substantial cost overruns. The exact extent of the overruns can't be determined, because GCS's early records were disposed of during one of several headquarters moves, but a former Board member remembers it as close to half a million dollars.

Initial satisfactory sales began falling off as competing supermarkets followed the Co-op into the New Hampshire Avenue strip beyond the D.C. line.

It is worth noting here that Giant and Safeway provided aggressive competition throughout the years of Co-op growth. Safeway opened a huge supermarket on Georgia Avenue two blocks from the Wheaton Co-op shopping center within 6 months of the latter's opening. When GCS planned the regional shopping center at Penn Daw in northern Virginia there were only one small grocery market and two service stations within a half mile. A year after the Co-op supermarket, drugstore, and service station were in place, there were two new supermarkets and six service stations.

Although many cooperators in the leadership were reluctant to admit it, Greenbelt Consumer Services was beginning to be run from the top down instead of from the bottom up. Members, or at least those members elected as area representatives, were active and had some influence at the local store level. However, the big decisions were made and approved or rejected by the Board, with the membership's involvement largely limited to its representation in the Co-op Congress. With the member/stockholders now climbing above 15,000, and spread across two states, there appeared to be no other way to run the business.

Under revised bylaws adopted in May 1958, directors received compensation of \$125 per quarter. Those who served as officers could receive additional amounts, but the total paid to all the officers was not to exceed

the total paid to all the directors. The president was allocated \$500 per year, the other officers \$100, and each of the three on the executive committee \$350. These payments were to cover expenses for transportation, postage, meals, etc. However, travel costs away from the Washington area could be billed separately. This schedule held for many years.

From 1958 onward the Board improved its operations in many ways. One particularly valuable innovation was a quarterly report on 10 basic financial ratios and several operating ratios which needed to be watched for trend changes. The Comptroller gave training sessions periodically for new directors and any representatives to the Congress who wanted to understand the normal ranges of key ratios and what they signified. These sessions also covered balance sheet and operating reports.

During the period when the new Takoma Park shopping center was moving toward completion, other projects were also underway.

On November 15, 1958, there was a groundbreaking ceremony at the new Westminster shopping center. On completion, a Safeway supermarket anchored one end of the shopping center, and the Co-op supermarket and service station stood near the other end. At the open house preview and ceremony, August 30, 1959, Edmund Carr, president of Carroll County's Board of Commissioners, praised the appearance of this newest GCS supermarket as the largest in the County. More than 4,000 members and their neighbors from Westminster and surrounding farms inspected the store. Next day and all the next week, they came back to shop. Sales so far exceeded expectations that both the store and the wholesale staffs worked overtime to keep the shelves stocked.

After having used Smith's Bakery in Ladiesburg, Maryland for several years to supply Cornell formula bread, GCS bought a controlling interest in the bakery in 1958. The bakery at this time improved and enlarged its plant to accommodate the demand for CO-OP label breads and other baked goods. GCS Board and management then went ahead with a program to install baking equipment in its supermarkets. Most of the production was prepared in the Ladiesburg bakery, frozen there, and then transported to the various stores for "bake-off." This innovation was most successful at the Wheaton supermarket. Along with the installation of baking equipment, that store was enlarged in 1958 to the tune of \$200,000.

In January 1958, GCS signed an option for 10+ acres at Penn Daw, south of Alexandria, Virginia. Development of this shopping center marked a departure from earlier projects. There was no cluster of families who already were cooperative members in the area, and any serious campaign to build membership before building the store was pretty much neglected.

The prospectus presented to the Board and passed on to the Congress appeared well researched and favorable:

"The proposed shopping center will be located in a heavily populated residential section with a 'long reach'. The tract has over 1,300 feet of frontage on Kings Highway, U.S. 1, and Poag Street....The recently completed intersection at this point provides the utmost in accessibility to the proposed center....

"The market analysis of this site indicates that there is a definite need for a shopping center at this point. Over 30,000 cars pass the intersection daily. The primary trading area lies within a two-mile radius of the proposed center in which over 26,000 people live....There are no large markets south of the site for a distance of 45 miles so that it should attract large numbers of rural shoppers....We hope to do an initial volume of something in excess of three million [dollars].

"We expect to purchase the land at a cost of \$315,000 and then sell it to a syndicate which will raise \$600,000. Weaver Brothers is presently seeking to obtain a mortgage for about \$800,000 for us....We will guarantee the rent on the entire center to the syndicate. In turn, we will sublease all the stores we do not operate."

There followed detailed cost and revenue estimates for a supermarket building to include drugs, variety, and bakery departments (40,000 square feet); bowling alley (48 lanes) under the supermarket; service station (6 bays and Virginia State inspection station); rental stores; and parking lot for 500 autos. Total project cost was estimated at \$1,390,000.

This appeared to be a golden opportunity for expanding the Cooperative, however several flaws came to the surface later:

- The entrance was not exactly on U.S. 1, but on Kings Highway which at that point made a bend in what proved to be a very difficult intersection to negotiate. What looked simple on paper turned out to be a traffic problem which discouraged drivers trying to enter the shopping center.

- Actual costs exceeded estimates. The center was to have been owned by GSC, but funds to develop it were exhausted prior to its completion. The center was sold to a syndicate on a sale/leaseback arrangement. Some \$300,000 excess of cost over budget was capitalized, to be amortized as leasehold improvements over the term of the lease.

- The necessary membership base never developed. The top count of stockholders barely exceeded one thousand. One negative factor seemed to be lack of a sense of "neighborhood" which had encouraged organization in previous store locations.

- Unexpected rapid growth of competition developed along U.S. 1.

GCS picked up the option on the Penn Daw site in January 1958, construction got underway in March 1959, and the supermarket opened for business May 17, 1960. In addition to the usual grocery, variety, drug, bakery departments, and community meeting room, there was a watch repair service and the first SCAN furniture store (more about SCAN later).

Two months before Penn Daw opened, GCS added still another supermarket to its collection. This one was in the Pennmar shopping center, in a relatively low-income area northeast of the District of Columbia, called Forestville, Maryland.

This was a hurried decision. Food Town, Inc., with eight stores in the Washington area, went into voluntary bankruptcy in the summer of 1959. Although the management staff and the Board of GCS was already heavily involved with expansion projects, they decided to explore acquisition of this small chain. GCS made a bid but lost out to the Kroger Co. However, Food Town had a supermarket under construction in the new Pennmar shopping center, and the lease for this facility was offered to GCS.

The center was reported "as going to be a healthy one". It contained 80 acres, although only half would be developed in the first stage comprising 33 stores including Peoples Drug, Kress, J. C. Penney, and a Grand Union supermarket at the other end from the location the Cooperative was examining. There was direct access from Pennsylvania Avenue S.E. and from the Marlboro Pike. Ashelman estimated the breakeven point for the market would be \$30,000 a week, but that sales of \$40,000 a week could be expected.

The Board approved the leasing, at a minimum rent of \$41,500 against 1 $\frac{1}{4}$ percent of sales, and plans were rushed to fit the 25,000 square feet as near as possible to the Greenbelt Co-op pattern. A hoped-for Co-op drugstore and service station could not be secured, so Pennmar did not fit the "one-stop Co-op shopping" concept. There was a community meeting room, though.

At the time of its opening, there were only two members of GCS living in the Pennmar area. A month prior to the opening, the membership relations department began holding meetings at the store which managed to attract about 200 people. Within a few months enough customers had signed up to create a Pennmar area Council with representatives to the Congress.

The supermarket opened March 8, 1960. Sales at Pennmar for its first full year showed a weekly average of \$22,990, far below the \$30,000 breakeven point and just over half of the predicted \$40,000. Results at the much larger Penn Daw supermarket located within a Co-op shopping center did not look much better.

In other store areas, the Cooperative's member relations and customer relations programs had proven satisfactory and for some activities even spectacularly successful. Hoping to clarify the goals of such efforts, the Board drafted Policy No. 4, "Member Relations," in 1959. Revised slightly in 1962 and 1967, it outlined the goals of the Co-op's member relations program: to provide a continuity of trained consumer leadership; to keep members informed about their rights and responsibilities as owners, and about Co-op activities and operations; to secure greater member participation in the ac-

tivities of the Cooperative; and to keep consumers informed about cooperative principles.

In the main, this policy was followed and worked well. There was, naturally, a wide range of emphasis on techniques used to achieve desired results in member relations. This came in part from shifts in the importance placed, for instance, on cooperative education, consumer information, member signup, leadership development, participation in activities, or increase in sales. Another variable was the availability of competent staff and volunteers, and on funding for member and consumer relations.

An August 1959 report to the Board by the membership relations department gives an example of the scope of its activities. Reported program efforts included in-store suggestion cards; a newsletter; new member nights; outside customer promotion; a library of CONSUMER REPORTS magazine; employee training; and a host of activities which included a homemakers' open house, product testing committees, consumer study groups, in-store demonstrations, cooking schools and homemaking and shopping skills classes.

Other features of the Greenbelt Cooperative's consumer education program in the stores included recipes tied in with shopping specials, organically raised fruits and vegetables, "best buy" indicators on the shelves, nutrition leaflets, and tours of Co-op supermarkets and of suppliers' facilities such as the bakery at Ladiesburg, frozen food plants on the Delmarva peninsula, fruit orchards, cooperative poultry farms, etc. A few years later when reduced operating margins forced staff economies, the information programs for shoppers could not be maintained. While they lasted, however, they were an attraction that no other supermarket offered. Later, Giant supermarkets, which along with Safeway dominated the retail food trade, adopted many of the benefits for shoppers that GCS had pioneered.

The Co-op Congress also took a lead in the field of consumer information and protective legislation. They arranged for members to appear before committees of the Maryland Assembly and the U.S. Senate and House of Representatives as well as hearings by the U.S. Department of Agriculture and the Food and Drug Administration. They testified on behalf of such legislation and regulations as Senator Hart's bill on packaging and labeling, water content of hams, the "truth in lending" bill, repeal of the so-called "fair trade" law, and removal of the regulation barring pharmacies from being under the same roof with food stores. Co-op members provided strong support for content labeling which is now required on most canned and packaged food.

The Co-op at this time was brimming with ideas; many of these proposals failed to reach actuality. In this period from the late '50s into the '60s, the general manager brought to the Board such ideas as a site for recreation and vacations for Co-op members, an arrangement for nonprofit funerals, a

mutual investment club for Co-op members, made-to-measure men's suits, car leasing, cooperative housing in the D.C. area, low-cost eyeglasses, books on a discount basis, cooperative child care, and a plan to convert the Embassy Dairy to a cooperative milk supply for GCS stores.

Other management ideas won Board approval and became part of the GCS operations with varying degree of success. Some continued for years; others had a short life. Here is a sampling.

Danish furniture.

In 1956 the small consumer cooperative stores in Denmark were converting to supermarkets, and sought help from both GCS and Rochdale to train employees. A series of Danish trainees were sent to Rochdale's Falls Church supermarket, and one of them suggested selling furniture made in the Danish cooperatives. Price lists showed that the few examples which were available in the Washington area were 3 1/2 to 4 times the Danish prices.

Ashelman was enthusiastic. While in Europe on business, he brought back about 30 sample pieces of the Danish furniture. He believed the careful workmanship and simple design would sell well in the Washington area, and that the margin in furniture sales was so high that GCS could pass significant savings on to consumers. With Board go-ahead, temporary furniture displays were set up in the hospitality rooms at the Falls Church and Piney Branch stores. \$10,000 in orders were taken in the first month.

The furniture was so well received that display sections were a part of the Penn Daw and the new Takoma Park supermarkets when they opened. By 1961, sales were \$237,000, with a net operating profit of \$26,000. The Co-op was selling furniture at a gross margin of 32 percent at a time when furniture store gross margins in the area were believed to be at least three times that figure.

Bob Gowell—the man who ran SCAN for more than 20 years, and was largely responsible for its success—remembers that most of the GCS staff thought selling Danish furniture in a supermarket was “a nutty idea.” But it worked. Gowell's central idea was “high quality, contemporary furniture at low prices ordinary people can afford”. The low prices were based on buying directly from the manufacturers instead of through importers and wholesale houses, shared overhead with other departments, minimum advertising, and markups about half what furniture stores and department stores were charging. There were very few price increases in the 1960s, made possible in part by stable exchange rates.

By any viewpoint, SCAN was a phenomenal success. From its modest beginnings, it eventually grew until it supported GCS when other operations went sour. It was the only remaining asset when the Greenbelt Cooperative went into the Chapter 11 bankruptcy settlement in December 1989.

Charter flights. Another successful co-op innovation was charter flights. The idea was originally proposed by Ashelman in November 1958 as a scheme for consumer cooperatives in Denmark, Sweden, Switzerland, and Germany to exchange roundtrip charter flights with American cooperatives. The exchange concept was soon dropped as too cumbersome, and restrictions on group travel charters imposed by IATA had to be resolved, but there seemed to be a genuine demand for lower-priced air fares to Europe. When the first two GCS charters to Europe took off in the summer of 1961, there was a standby waiting list.

"Shop Co-op" bumper stickers. Co-op shoppers who paid cash for their gasoline and agreed to have a red and white "Shop Co-op" sticker affixed to their car bumper earned a one cent per gallon discount for supplying co-op advertising wherever they drove. It was one of the most effective promotion devices management ever thought up.

While management and the Board experimented with new services, they continued to open additional stores. Before the Co-op shopping center at Penn Daw and the supermarket at Pennmar opened, management and the Board had agreed already on picking up a lease for a new supermarket at Capital Plaza. This was another hurried decision. The location was in Bladensburg, Maryland, at the northeast intersection of the Washington-Baltimore Parkway and Route 450. This new development was a large regional shopping center, with a Grand Union supermarket at one end and the GCS market at the other. The presentation to the Board set the breakeven point at \$40,000 to \$50,000 but estimated gross sales at \$50,000 to \$60,000 per week. When the Capital Plaza supermarket finally opened in May 1966, weekly sales averaged \$39,000 for that year and the next.

This was the first store area for which no membership council or representatives to the GCS Co-op Congress developed.

At the end of September 1959, GCS moved its headquarters from Greenbelt to a new warehouse and administration building in Beltsville, Maryland. The new facility doubled the space that GCS had in its old Baltimore warehouse. Located on an 11.3 acre site, the half-million dollar building had its own railroad siding and specially designed loading platform. The location was just a few hundred feet from U.S. 1. The warehouse featured four chilling and cooling rooms for storage of vegetables, fruits, dairy products, and candy. Flexible doors provided uninterrupted entry and exit for fast product transfer. The modern labor-saving equipment for handling merchandise included invoice and inventory control. The offices included a testing kitchen, conference room, and an "IBM" room with special temperature and humidity controls.

GCS went into the Baltimore area for its next supermarket. In the summer of 1960, Ashelman obtained Board approval for purchase of the

N&W Supermarket, 2825 Old North Point Road, in Dundalk, Maryland. This was a stable working class neighborhood, with most families owning their homes. It was an established store with a solid customer base. Failing health was forcing the owner to retire and he declared himself unwilling to have a chain take over the business. GCS purchased this store for \$200,000, and for a time retained the original name and advisory services of the former owner. He became the Cooperative's first member there and encouraged what became a heavy investment in GCS stock. In less than a year, Dundalk had enough members to become an area council within the GCS Co-op Congress structure. This became one of the strong groups in the Cooperative's family and provided significant leadership.

Estimated weekly sales would be "between \$60,000 and \$75,000" according to the proposal given to the Board. Actual sales averaged \$41,799 for 1961 and fell to \$35,066 for 1962.

The Board had become accustomed to performance falling short of forecast budget, but after 1959 the shortfalls seemed to be getting worse. Looking back over the operating reports, 1959 is obviously a peak year followed by a slump. Total annual sales for GCS increased in 1960 and 1961. With new store openings and some general inflation in the economy affecting prices, this was to be expected, but the sales totals at individual stores fell.

There was a gain in sales for 1960 but it was the result in part from a strike in February which closed 257 of the largest grocery stores in the Washington metropolitan area. The GCS contract with the meat cutters and grocery clerks unions expired a few months later than the contracts which Giant, Safeway, and the other chains did. The Cooperative, therefore, was in a position to benefit from a volume of sales nearly three times what it did normally. The real gain was largely in the favorable publicity for the way it coped with the emergency and for not raising prices. As a result, many new shoppers became steady Co-op customers and some became members. Little profit was realized from the strike bonanza, because of overtime pay rates and premium prices which had to be paid for emergency transportation rerouting of merchandise.

Looking at net margins (before deducting allocation of central office expenses), six supermarkets registered a gain from 1959 to 1960; the following year only two showed any gain while eight had a worse showing. Service stations showed some improvement during this period. Drug stores did not register much change. Neither of these two divisions accounted for any large percentage of total operating results.

Substantial increases in facilities, staff, and inventory in the late '50s and into the '60s in the face of declining operating margins posed a cash flow problem that became apparent to management and the Board in 1960 and grew critical in 1961. This required some tightening of expenditures and some careful shifts in debt financing.

Here are key figures from the operating reports for fiscal years 1958, 1959, 1960, and 1961, presented close together so that comparisons can be made.

	1958		1959		1960		1961	
Sales	13.2*	100%	15.6*	100%	21.9*	100%	22.8*	100%
Gross margin	2.7*	20.7	3.2*	20.7	5.0*	22.89	5.1*	22.23
Net savings	192,038	1.5	251,127	1.6	212,000	0.97	34,586	0.15
Patronage refund		1.0		1.1		none		none
Working capital	646,195							
Current ratio		2.4		1.6		1.57		1.59

*mil

The main balance sheet items as of January 28, 1961 are:

Assets

Current assets	\$2,362,566
Investments (affiliates, others)	550,065
Net fixed assets	2,429,027
Deferred charges, other assets	<u>53,783</u>
Total assets	\$5,395,441

Liabilities and Capital

Current liabilities	\$1,501,700
Deferred income	25,886
Long term debt	1,525,909
Net worth	2,289,702
Capital stock outstanding	1,941,172
Other	348,530
Total liabilities and capital	\$5,395,441

The Board watched the monthly financial and operating reports with increasing apprehension as loans were adjusted to get extensions and better terms, as sales failed to meet budget projections, and as net savings dwindled. The directors also took alarm at the trends in the quarterly charts of 10 basic financial and operating ratios. In January 1956 and January 1957, all but two of the key indicators had been in the satisfactory range. By January 1961, seven of the ten were unsatisfactory, and this was still the situation in January 1962.

The comparisons and the danger points can be seen in the chart on the following page.

During this period of deteriorating operating conditions, the Board and Congress increasingly began to ask themselves how fast GCS should expand and by what methods. In December 1960, Treasurer William C. Arntz reported to the Congress, "Simply stated, our major problem is that we have too much investment in fixed assets such as real estate." The Congress appointed an ad hoc committee under Louis Stolcis, then chairman of the Wheaton delegation, to examine in detail and report on the financial condition of the Cooperative in relation to its expansion program.

The committee met with top management and the Executive Committee of the Board. On March 10, 1961, it presented a written report that suggested GCS expansion had been too rapid. Several stores had fallen behind expectations, and were unable to contribute towards indirect expenses such as the warehouse, central office, etc. "The Board's attitude toward new store offers has changed. The possibility of stores in Thurmont and at the intersection of U.S. 29 and Maryland route 32 will be considered only if the developer builds and equips the stores. GCS will pay a fixed minimum rent plus a percentage of gross sales. This would allow a minimum overhead operation....The Board is searching for effective techniques for better evaluation of information supplied by management (and) techniques for supervision of management."

In September 1961, Comptroller Robert Morrow warned the general manager and the Board against taking on any further projects which would require capital.

For some time during spring and into the summer of that year, cutbacks on store maintenance and in personnel resulted in increasing complaints by member and non-member shoppers.

Individual directors began complaining that top management did not seem to be dealing with the situation very effectively. Margin notes from one director's operating report during this period complain "Same old problems — we have gone over this with Sam for years." A notation on the margin of another director's copy of a report reads "if we can't possibly break even, why are we in the real estate business?" Another: "Petroleum sales above budget and loss goes up? Something very wrong here!" And still one more sample: "Fuzzy report — not responsive to question." As one director commented to Ashelman during a Board meeting, "You keep telling us the reasons last month was so bad and saying things will be better next month, but supermarket sales are still under budget and getting worse."

The Supervisory Committee proposed to the Board that a management survey be conducted in order to get a better grip on some of the problems. The head of Nationwide's investment department also suggested that an

Basic Ratios	Norm	Jan.1958		Jan.1961		Jan.1962	
		OK	Not OK	OK	Not OK	OK	Not OK
Net worth/ total assets	over 50	63		42		47	
Current assets/current liabilities	2 or over	2.1		1.57		1.58	
Fixed assets/net worth	under 75	51		106		83	
Long term debt/net wkng capital	under 100	41		177		121	
Wages/sales	10-12	11.1		11.87		11.96	
Sales/inventory (inventory turnover)	14-21	14.5		13.2		12.7	
Net savings/sales	2-4		1.7		.98		.25
Gross margin/sales	20-23	20.8		22.89		22.22	
Other expenses/sales	7-8.5	8			10.03		9.84
Sales/net worth	10-20	9.8	10		10		

outside consultant might be helpful. Nationwide had been for many years both a principal source of funding and a strong advocate of expansion. But if it was agreed that a new management perspective was needed, where did that leave General Manager Ashelman? It was generally agreed that Ashelman was chiefly responsible for the growth and success of GCS since 1944; but it was also agreed that drastic times called for drastic measures.

Thus, cautiously, to avoid any public action that could damage the image of the Co-op and alarm the creditors, the Board began looking for a management firm and new general manager.

Nationwide had to be informed, as it had the largest financial investment in GCS and one that had extended over many years. Consent from Nationwide's investment department was necessary for a change in general manager. Nationwide's Murray Lincoln was a strong backer of expansion for GCS. Lincoln, along with Ken Stern of the American Institute of Cooperation and Jerry Voorhis of the Cooperative League were in touch with officers of GCS off and on during the autumn months. At this particular time, Nationwide had some contract arrangements with Checchi and Company, a Washington based management consulting firm with a good reputation and a growing list of clients.

A deal was struck with Checchi whereby they would offer Ashelman a position on their staff, after which GCS would sign a contract with the firm for management services. So, with no adverse publicity, the Board unanimously approved a draft proposal for the contract: "ON MOTION, Weinberg/Barrett, to retain Checchi and Company along the general lines of the draft proposal presented to the Board for management analysis and management services, after checking with the Corporation's attorney, and within any limitations imposed by the bylaws of GCS, and that appropriate officers of the Corporation be authorized to sign the contract and other necessary papers, CARRIED UNANIMOUSLY."



Changing to Checchi (1962-1963)

GCS signed the contract with Checchi and Company on February 9, 1962. By that time the change in management and the new contract had been examined and approved by the attorney for GCS and by J. C. Beall and Forest Lombaer for Nationwide Insurance Company. The initial agreement was retroactive to December 2 and extended only until the Cooperative's annual meeting and election in June. At that time the new Board could renew the contract. The bylaws limited the Board to management contracts of not more than 1 year.

The contract provided for management services and analysis. The firm specialized in studies for entering new markets, building new facilities, and financing. There were at that time about 45 employees on CEO Vincent Checchi's staff, and he described his organization as "employee-owned." Among the firm's clients were cooperatives in Sweden and Italy.

Before the end of January, Checchi installed Comptroller Robert Morrow as acting resident general manager. The changeover was announced first to the Executive Committee of the GCS Co-op Congress. Then on January 19, the full Congress heard the news and gave retiring General Manager Ashelman a vote of thanks for his past services of 17 years to the organization. Notification went to the membership January 31 in the weekly CO-OP NEWSLETTER.

Morrow had been on the GCS staff since 1946 and served as comptroller for the previous 6 years. He had frequently served as acting general manager when Ashelman was away from the office. Morrow was a graduate of the University of Michigan with a BS degree cum laude and a Phi Beta Kappa key. Before coming to GCS he was selected as one of four outstanding students nationally by General Motors for its summer training program. By the time of the Cooperative's changeover in management, Morrow was vice president of the Montgomery County Board of Education as well as comptroller for the Cooperative.

Contracting with a management firm rather than hiring a single general manager was experimental and innovative, but the Board anticipated several benefits. For one thing, a management firm offered a large staff of specialists which the Co-op as a small business could not afford to hire separately. These specialized services included talent search for middle-management personnel, commercial surveys for site selection, advertising effectiveness surveys, sources of financing, legal services, analysis of economic trends, and recommendations for effective management procedures and communication techniques. A contract with a firm would also alleviate the necessity of depending upon a single individual in the top slot, and reduce the trauma of having to find a replacement if necessary. Additionally, it was hoped that Checchi would bring wider commercial contacts and access to operating information of other business enterprises.

By the end of March, Morrow had clipped \$200,000 from annual operating expenses by trimming staff, reducing advertising in the Washington dailies, and eliminating the store hostesses. This last move was sorely felt by members and other shoppers. Food and homemaker demonstrations had been attracting as many as 125 women at a session.

In line with these economy measures, Checchi reduced its management fee for the initial contract period, and the directors voted themselves a 10 percent cut in compensation. While this was largely symbolic, it was intended as acknowledgement that changes were necessary at all levels. 1962 would be the second year without a patronage refund. The 5 percent dividend on shares of stock was still being paid, however, so purchase of additional shares continued to bring in much needed capital.

Before the change in management had time to really make a difference in operating results, a night-time fire gutted the Greenbelt supermarket and pharmacy building April 11, 1963.

Management, staff, Board, and members of the Greenbelt area delegation responded immediately to restore Co-op service to the community's residents. A free shuttle bus carried shoppers to the Takoma Park Co-op shopping center on Thursday evenings and all day Fridays and Saturdays. A home delivery service for groceries and prescriptions was instituted for orders over \$5. Customers wishing to carpool for shopping at either the Piney Branch or Takoma Park Co-op supermarkets could get one gallon of free gasoline for each passenger.

By April 20, management opened a small temporary grocery in the basement of the old store building. Twin Pines Savings and Loan gave some of its office space for a temporary pharmacy. Insurance offset losses in the fire, including some "loss of business" coverage. Planning began immediately for an improved replacement building. Knowing the cost would exceed proceeds from the insurance, a call went out from the Board asking each

member to buy an additional share of stock. The response was good. Members who bought 10 shares (\$100) were named on a bronze plaque mounted on the wall in the replacement building.

The new structure was completed and equipped with surprising speed; the Greenbelt supermarket and pharmacy were opened for business again on November 12, 1962, only 7 months after the fire.

Despite the changes in management and the Board, employees continued to carry on the day-to-day operations and activities of the Cooperative:

- In the spring of 1962 the first separate SCAN store opened in the Takoma Park Co-op shopping center. The suppliers had not been happy about their products being sold alongside groceries, so the move to a separate store was largely in response to the overseas suppliers.

- For many months, GCS had been arguing with Southern States Cooperative about price protection on gasoline, the way patronage refunds were computed, and a credit card for patrons. When satisfactory arrangements could not be worked out, the Board reluctantly accepted a contract with Sinclair Oil Company. This shift in suppliers brought criticism from members who viewed the loss of "CO-OP" gasoline as a serious setback, but despite the unhappiness, sales figures at the service stations climbed as additional drivers responded to the credit card availability and the familiar dinosaur emblem.

- At the end of June, sales of stock shares just about equaled requests for repurchase, and the backlog of those requests amounted to \$54,000. By November the backlog of requests to have GCS repurchase shares was down only a little, but sale of new shares was nearly double the requests for repurchase.

- Two more charter flights took members to Europe. The price for the roundtrip, New York to Brussels ticket was \$245, less a patronage refund after the accounts had been tabulated. The first two years of charter flights were so successful that the Board put together a policy statement and procedures for future flights based on the experience of the first flight leaders.

The Board assumed responsibility for determining the number of flights and general time of year, signing the contracts, and selecting flight leaders. The GCS office took care of publicity, handling the payments for fares, accounting, and insurance. A flight-leader couple put the flight package together, receiving inquiries, giving flight information, organizing get-acquainted meetings, and taking care of participants' needs during the trip. For this work, the leaders earned free tickets. A written report was required from flight leaders after return from the trip.

These flights, along with other travel services, proved to be one of the Cooperative's most successful member benefits.

- The Board approved auto insurance with Nationwide at a special discount rate as a member benefit.

Aside from the setback in operations resulting from the Greenbelt fire, sales and net margins for 1962 showed some improvement. Central office overhead, which had been 7.17 percent of sales in the first quarter of 1962, dropped to 6.26 percent in the second quarter, and to 5.93 percent in the third quarter. On the down side, although second quarter figures showed stores moving into the black, it was not enough to offset losses in the first quarter of the year.

In October 1962, Checchi presented a comprehensive report on the Cooperative's operations as specified in the management contract. This report, much of which was put together by Morrow, was one of the most discerning and helpful analysis of GCS ever made. The study was "Confidential — For Board Information Only," 37 pages long, and contained 14 exhibits. It clearly spelled out why operations had run into trouble, and it proposed remedial actions for management and for the Board.

Because this analysis explains why GCS was facing a crisis after two decades of heady success, much of it will be reproduced on the following pages. It should be noted that Checchi's team spotted weaknesses that continued to haunt the Greenbelt Cooperative through the next three decades until the bankruptcy in December 1989. It may be observed also, that many of Checchi's findings and recommendations are applicable to today's large cooperatives.

"Six principal reasons stand out why GCS got into difficulty:

"1. Too rapid expansion. In a short period of time GCS expanded too much and too fast. Within a period of 8 months in 1960 the organization added four stores to the chain — [new] Takoma Park, Penn Daw, N&W and Pennmar. The cash resources of Co-op were seriously depleted by the opening of these stores in such rapid succession. In addition management spent so much of its time on the four stores that regular operations were neglected. Unfortunately the sites did not turn out to be favorable. None of the four stores has achieved anywhere near their forecasted sales level thus causing a continuous cash drain from operating losses....

"2. Failure to stay within budget on new store construction.

...construction costs at Takoma Park and Penn Daw exceeded budget by \$400,000. This sum is approximately equal to 20 percent of the value of GCS shares outstanding....

"3. Involvement in unprofitable real estate transactions. GCS first entered the real estate field at Wheaton, where it was spectacularly successful. This success encouraged the organization to enter into other transactions, where unfortunately GCS was an amateur in a highly professional field. In the first 6 months of this year there was a loss from real estate operations

of \$23,856. Furthermore, GCS has \$861,000 of badly needed cash tied up in real estate....almost \$500,000 has been invested in the Takoma Park Shopping Center and will be unrecoverable for a number of years.

"4. Insufficient caliber of management staff. As a concern grows...there is needed a larger amount of expertise in store operations, merchandising, advertising...it is more necessary than before that there be competent store managers who are thoroughly trained.

"5. Failure to keep costs in line. Overhead expenses had been allowed to get completely out of hand. A large warehouse was built though there was not nearly sufficient volume to support it on a cost basis. Advertising expense as a percent of sales was significantly higher than the national average. There was too large a staff in almost every department. Annual central overhead costs had risen by more than half a million dollars and as a percent of sales from 5.97 percent to 7.17 percent in a little over 2 years....

"6. Over-saturation of supermarkets in Washington area. Co-op sales have declined sharply in a number of stores because new markets have opened in the locality. The most recent example is Piney Branch [Safeway and Food Fair stores within a 2-month period]. Within a little over a year new competition has caused major declines in sales in Falls Church, N&W, and Greenbelt...."

The report then identifies improvements which have been made and are underway: expense reduction ("every \$1,000 cut in expenses has approximately the same effect as if sales rise by \$10,000"); cash preservation; super-market improvements ("cleanliness, reduction of out-of-stock items, more courteous service"); improvements in other divisions (petroleum showing 20 percent increase in sales with Sinclair as supplier and will show profit for year, pharmacy division in black for first time in several years but return on capital still very low).

The furniture division, in contrast to other operations, had a big 42.2 percent sales increase and \$6,098 in earnings for the first 6 months of 1962 compared with the year-ago figure. This division "produced a handsome 71.2 percent return on investment".

"Other areas of management concern" were discussed. These included:

—"Develop a solid overall **merchandising** program....displays have been poor and sparse... signs need to be improved...programs have not gotten across to customers....

—"Personnel....there is no training program to develop employees for senior positions....this deficiency puts too great a burden on the general manager....

—"There is no spark to the **member relations** program and very little in the way of benefits. The very great majority of members are inactive in Co-op activities. The lack of young members is especially noticeable... re-

sponsibility properly lies with the Board and Congress but management will provide all possible assistance....The member relations program cannot be effective if it depends solely on resources of men and money provided from the income of the Co-op....Promote activities initiated by members....which may be financed by the members themselves.

—“**Capital structure**....the 5 percent dividend is in effect a true cost of over 11 percent since dividends are paid after taxes [plus] cost of maintaining stock records, processing redemptions. Co-op stock is treated as demand money...GCS cannot count on permanent use of the proceeds.

—“**Price policy**. The aim of last year’s every-day low price policy was to lower prices on 125 of the fastest-selling items to a level below the competition. The lower price was to be made up through higher volume. This program never got off the ground. Massive additional advertising [needed] to support the program was out of the question in light of the acute cash position....In any event it did not create enough volume.”

—“**Site Analysis**. Poor site selection is one of the significant factors in the unsatisfactory performance of some GCS stores....Last year GCS had to absorb a \$91,000 operating loss at **Penn Daw**. It would be cheaper to move out entirely and just pay rent on the property [but] the terms of the lease stipulate that a supermarket must be operated on the premises. Every effort will be made to find a tenant. The **Piney Branch** store was built perpendicular to the road rather than parallel. The service station was then built in a way to completely obstruct the entrance and the front of the store. The store is largely hidden from view and many potential customers pass by without realizing a Co-op store is there. Three major chains — Kroger, Giant and Food Fair — opened in the immediate area. For the first 6 months of this year the store had a loss of \$22,000.... Management is looking for means to dispose of the store. **Takoma Park** was built too far back from the road. **N&W** is the only Co-op store in the Baltimore area...uneconomical. It was a mistake to enter a different market on a single store basis without plans to expand in Baltimore.

“There has been in the past a mistaken policy in regard to loss operations. Substantial amounts of money and management time were spent on unprofitable parts of the organization at the expense of the profitable parts. This will not be done in the future....To pour money blindly into losing operations is to weaken the Cooperative. GCS should be flexible, closing stores when necessary....

—“**Organizational structure**. Two major changes have been put into effect this year. One removed a level of management...producing swifter communications...and sizable savings....The other reflects the increasing importance of furniture to GCS operations. The furniture director now reports to the General Manager rather than to the Supermarket Division....This

[new] division has its own budget, is a profit center by itself and is better prepared to continue its expansion into the future.

—“**The Board of Directors.** Few corporations in American industry can claim as high a standard of integrity, devotion or sense of purpose as this Board. **But** — the Board should be able to distinguish what is important and to approach major decisions and assess the performance of management with competence and assurance, whereas in fact the Board does frequently spend too much time on trifles....the Board must have at its fingertips the fullest statistical and analytical data it is possible for management to provide. In order to meet this need, management has introduced the ‘Green Book’ [for] operations information. Whenever management now presents to the Board a recommendation for action, the data in support of the action as well as data counter to the recommendation are presented...[so as] to make decisions on the basis of all the relevant data.

“GCS has a dual character; it is (1) the largest consumer cooperative in the country, and (2) a business operating in the context of the American economic system. By the nature of the co-op movement and because of the method of election the GCS Board tends to be slanted wholly to the Co-op side of its dual character. The difficulty of the Board’s work is aggravated by the lack of a balanced expertise such as is present on a well selected private corporation board....

“The Board must become more involved in business analysis and long-term planning....There is still an unfortunate tendency for some Board members to see themselves as representatives of their respective areas on decisions concerning operations in the neighborhood where they live. This is obviously not the intent of the bylaws....

“An even more disturbing tendency is that of Board members presenting a disorganized view to the membership. There must be genuine differences of opinion on such important matters as the Board discusses and such differences must be forcefully presented for the Board’s deliberations. However, once such differences have been resolved, or in the absence of unanimous resolution a majority vote has decided the Board’s position, it is irresponsible of Board members whose opposing views have not prevailed to take their views back to the membership for airing....

“The Board also devalues its role by spending far too much time on relatively unimportant matters and not enough time on the major problems....It is much too touchy about fine points, wordings, definitions and procedures when debating general policies.

—“**Future planning.** No expansion of any magnitude must be undertaken until the financial position is satisfactory. This means not only that GCS should be operating in the black, but also that the cash position, reserves, and credit standing must once again be restored to realistic levels.

"Protection of the assets of the Co-op is a greater service to the members and the consumers than risky investments. The Board should satisfy itself that, if the investment proved to be a mistake, GCS could take the losses without sinking the Co-op....Another factor to be considered, no matter how promising the opportunity, is whether GCS has the money to carry the investment through....

"Of particular concern to a co-op is whether the proposed expansion would fill existing consumer needs....If adequate shopping facilities are now provided, it would be unwarranted for GCS to use resources to enter into head-on competition with the others.

"GCS experience in real estate operations reflects an amateurism that gives little hope of future success...try to divest itself of this type of business....A policy that merits further investigation, is that we should plan smaller, expandable supermarkets in the future. They might revert to being primarily food stores...soft goods buying and merchandising calls for different talents than those required for groceries....Reduced size will require a smaller investment of men and money, with a commensurate smaller risk....Some consumer needs may be provided now, but at prices which GCS could reduce significantly while still satisfying its investment criteria: home repairs, lawn and garden shops, do-it-yourself shops, etc....For the time being, expansion plans will be developed only as and if the financial and administrative capabilities warrant and only in accordance with sound planning."

After directors read the report they met with Checchi in a day-long discussion of the many details and possible remedial steps to be taken. Various directors took exception to some findings and conclusions, especially some points relating to overall observations about consumer cooperatives and the Board, but in general it was agreed that this was the only thorough and detailed analysis of GCS ever made. Followup conferences explored various management recommendations, and emphasis was put on reducing real estate holdings, putting together a better advertising program, lowering wholesaling costs, and deciding when and how to expand or limit facilities for the good of the Cooperative. There was a feeling that after 2 years of escalating problems and discouraging operations, that GCS was pointed in the right direction and could expect better performance for its 24,000 member-owners.

However, despite many improvements in operations and phenomenal sales and net margins for the new SCAN furniture division, there were disappointing declines in sales and continuing operating losses in supermarkets, service stations, and pharmacies.

Despite the moratorium on expansion, there were two additions in 1963. After a long search, management negotiated a new location for Fairlington when the lease expired on the original store building. The floor space was

25 percent larger in the new location, and there was more parking capacity. The rent was higher than management or the Board wanted to pay, but sales justified the decision. This continued to be the smallest of the Cooperative's stores.

The other expansion project was a SCAN furniture store on West Broad Street in Falls Church, about a block from the supermarket and service station.



The Checchi/Morrow Experience (1964-1966)

After the summer of 1963, operations began to slowly improve. Four actions were critical in effecting the slow turnaround:

1. Deep cuts in staffing and controllable expenses.
2. A wide range of improvements in operations, including attention to store maintenance, shifts in merchandising, better training of personnel, and more efficient use of resources.
3. Sale of real estate, which had been tying up capital, helped relieve the cash crunch.
4. Conversion of the supermarkets to Consumers Discount Supermarkets. This new identity was part of a strategy to grab a larger share of the discount merchandising market, which was rapidly shrinking due to a flood of competing new supermarkets.

This last move was the most successful.

In June of 1963, the Board agreed to try drastic measures to breathe some life into the Penn Daw supermarket. Penn Daw was the least successful of the Cooperative's 11 supermarkets. It had registered a \$76,867 operating loss in 1962. Its average weekly sales for May 1963 had fallen to \$20,772, less than a third of what had been forecast when the store was opened. Average weekly sales per square foot were 99 cents compared, for instance, with Wheaton's \$4.05. Inventory turned over 11.02 times per year compared with an industry-wide figure of over 14. As an experiment, the Board approved a management proposal to convert the Penn Daw supermarket into a lower price format in the expectation of higher sales. The new store would be called Consumers Discount Supermarket.

The 'new' Penn Daw store opened on July 24, 1963. The first week's sales jumped to \$57,135. Average weekly sales for December 1963 were \$54,310. Weekly sales per square foot went up to \$1.60, and inventory turn-over improved to 16.69. In the first 3 months as a Consumer Discount Supermarket, Penn Daw showed an operating profit of \$10,627; for the 9 months prior to the conversion, the store had lost \$13,516.

Encouraged by results at Penn Daw, the Checchi/Morrow management team recommended that this aggressive, low-gross-margin program be introduced at the N&W and Pennmar supermarkets. These stores, like Penn Daw, had gained only a few hundred members each, were somewhat isolated, and faced declining sales that were far below those forecast. After the conversion, sales improved (though not as dramatically as at Penn Daw). Westminster was the next store to be converted.

By November, there had been a 70 percent gain in sales at the four stores since the changeover. The Board voted on November 20 to let management convert the remaining supermarkets to the Consumers Discount format.¹ For legal and accounting purposes, the Board created an additional corporation as a wholly owned subsidiary: Consumers Discount Supermarket, Inc. While sales overall continued to improve after the conversions, they did so only modestly; by this time competing chains were aware of the GCS marketing plans and fought back with discounting schemes and sales promotions of their own.

The conversions were not without controversy. Some members and leaders decried the loss of "CO-OP" identity. Long familiar "CO-OP" signs went down, to be replaced by "Consumers Discount Supermarket" signs. In the beginning, advertisements identified the new supermarket as 'co-op CONSUMERS DISCOUNT', but soon dropped the 'co-op'. Flyers, shopping bags, and the newsletter all replaced "Co-Op" with the new name. Inside the stores, signs calling attention to 'CO-OP' and to member ownership were removed. Some felt this was contrary to management assurances that 'Consumers Discount' would be used to bring non-shoppers into the stores, where they could then be exposed to 'CO-OP' and become participating members. Other members were under the impression that the co-op had gone out of business.

The sale of real estate also helped the Co-op at this time by relieving the cash crunch. In addition to bringing in an infusion of cash, real estate and equipment which were sold could then be leased back and the rent written off as a business expense. This was more economical than borrowing cash for operations and was preferable when the debt ratio was already high.

By 1963, all but a small parcel of the GCS holdings in Greenbelt had been sold. At the end of that year, the Board sold the Beltsville warehouse and land options for \$557,133.82; one hundred thousand dollars of this was in cash, which was a real boost for the Cooperative's operations. This sale

¹ Other wholly owned subsidiaries at this time were:

Rochdale Cooperative, Inc. — to permit operations in Virginia.

Potomac Petroleum Distributors, Inc. — for contracts and purchases for the service stations.

Consumers Realty and Equipment Corporation — to handle real estate transactions.

Potomac Export-Import Corporation — for overseas buying and selling transactions.

N&W Consumers, Inc. — to afford legal and financial protection for the supermarket at Dundalk.

gave GCS a net gain of \$94,977. GCS continued to rent space in the Beltsville warehouse until 1977. The Cooperative's offices were maintained at the Beltsville location until 1969, when they moved to the Piney Branch store.

During the latter part of 1963 and into 1964 GCS was able to rent out shop spaces which had been standing vacant in Takoma Park, Penn Daw, Piney Branch, and Wheaton. This improved the income picture a little. At the Wheaton, Takoma Park, and Piney Branch service stations, garage space was rented to independent auto mechanics when figures showed that GCS was operating repair service at a considerable loss.

Nevertheless, GCS continued to lose money on real estate operations. It had over \$500,000 tied up in the Takoma Park Shopping Center, Inc., partnership. Because this real estate corporation operated at a loss, GCS had to supply cash for interest payments on a bank loan to the Takoma Park corporation. There was no early prospect of unloading this albatross.

Along with the conversions and real estate sales, operating procedures were improved. As money slowly became available, the older supermarkets were renovated one by one. The percentage of out-of-stock items was reduced to acceptable industry levels. Slow moving goods were removed from the shelves. The number of brands of a particular product were reduced to lower inventory. CO-OP label products carried on the shelves increased to 364 by mid-1964, and sales of CO-OP label items supplied through the warehouse increased. By mid-1964, sales per man-hour in GCS supermarkets averaged 34.1, compared to an industry figure of 27.4. The average salary for store personnel (excluding the manager and department heads) was \$2.48/hour, compared with a \$2.00 industry average.

All new Co-op employees were given an orientation about consumer cooperatives and some background on GCS. A schedule of training and development for top staff and middle management was also maintained. This included supervisory skills, marketing, and the range of specialized information needed for grocery, auto service, drug store, and furniture operations.

All of these factors helped build sales volume and net margins, and reduced customer complaints.

While money went into employee training and staff development for some, there were staff cuts in other areas, particularly administrative staff. In a period of two and a half years, while the total number of employees increased by 65, the number of administrative and supervisory personnel was reduced by 40, a drop of nearly 50 percent.

By the end of 1964, it was clear that GCS had emerged from its sales decline and financial threat. Supermarket sales for the calendar year were above the projected budget and 44 percent above the previous year. Every store was above its 1963 sales level. All four divisions showed net operating savings, and the net income total for GCS was \$304,183.

The 1964 dividend was back to 5 percent, but still no patronage refund. Morrow argued that members were getting a patronage refund up front through the discount prices. As a matter of policy, the Board determined that if net savings continued they should be used to rebuild reserves before consideration of patronage refunds.

GCS used its improved financial position to bring all requests for repurchase of stock up to date. By the end of 1964, enough confidence was restored so that purchases of new shares marginally exceeded the repurchase of old shares.

Better sales, improved operations, and favorable margins also allowed some selected expansion. First on the list was a third SCAN store on T St. NW in Washington, D.C. It was a good location, and after an elegant opening, it added sales and profits, as well as prestige, to the Cooperative.

Looking ahead, the Board created SCAN, Inc., another wholly owned subsidiary corporation. This new corporate entity was organized under the District of Columbia model consumer cooperative law and was advantageous to GCS in computing state income taxes.

Sales and net margins from the three SCAN furniture stores were so far ahead of expectations that Morrow/Checchi recommended a furniture warehouse. In a 9-page presentation to the Board, Morrow and Checchi argued that while "leasing this warehouse space increases our fixed commitments in the furniture division and thus increases our risk," it was nonetheless vital, "if we are to continue to grow and if we wish to handle furniture efficiently." The report concluded by recommending that, "we should continue to expand the furniture business as fast as we can secure personnel to handle the additional responsibilities. It is expected that sales of furniture will exceed \$2,000,000 next year...."

The Board agreed. A 15-year lease was signed on a new warehouse in the industrial area of Beltsville, Maryland, which provided 25,000 square feet at 85 cents per square foot, with room for expansion. The equipment budget was \$45,000, with two-thirds of it leased, so that minimum cash investment was required.

Another expansion project in the fall of 1964 was a twelfth GCS supermarket, this one in Glen Burnie, Maryland. A detailed market survey showed that this was a blue-collar community with rapid population growth. The building was for a former Safeway that had closed during an extended strike in the Baltimore area. The area was already saturated with stores, but the leasing terms were attractive and only for an initial 2-year period. The Board had hopes that this might become a companion co-op venture to the store in Dundalk, however the store never did well and no real customer interest in the Cooperative was developed.

The biggest and most important expansion project in 1964 was a fourth SCAN furniture store. This one was located, after an exhaustive study of options, in the western suburbs of Baltimore in Pikesville. The building had originally been constructed for a savings and loan that failed to move in, so the price on the vacant building was low. The cost was \$157,000 for about 6,200 square feet of floor space. Purchase was contrary to the Co-op's policy of leasing facilities to avoid tying up capital, but in this case, the Checchi/Morrow recommendation concluded that returns could be 22.5 percent over renting.

In September of 1965, GCS opened its eighth, and largest, drug store about a mile south of the Falls Church supermarket. It was one of the only drug stores not a part of a "one stop Co-op shopping" complex. It was known as "Consumers Discount" store, with little CO-OP identification. Sales and margins turned out to be below expectations.

At almost the same time, the Falls Church supermarket got a much needed facelift. As the year came to a close, GCS's eighth service station was opened in Fairlington, Virginia, about two blocks from the small Fairlington market.

All new ventures and expansion projects at this time were required to be in compliance with the Cooperative's One Year and Five Year Plans, a policy which had been adopted in 1962. These long range plans were to address types of services and location of facilities; amounts and sources of financing; membership and stock outstanding; and adequate staff, training programs, and executive development. Planning itself was to be based on the Cooperative's objectives and policies; stated assumptions regarding the Cooperative's ability to serve its consumers, improve its competitive position, and maintain a sound financial position; and sound economic and financial analysis and thorough marketing research. During the Checchi years, this long-range planning laid a successful foundation for the Cooperative's operations. It was especially valuable in scheduling the financing program so that borrowings and repayments could mesh without causing cash flow problems.

Checchi's management contract itself was another key to GCS success, as it contained financial incentives for meeting specified goals. The contract was to be renewed annually. There was a flat annual fee to be paid in equal monthly installments, in addition to a bonus of 5 percent of net savings before taxes in excess of \$200,000, payable upon completion of the annual audit. This was designed to encourage margins for GCS which would assure the 5 percent dividend on shares of stock and hopefully patronage refunds at some point.

While the Board's main concern in hiring Checchi had been improving operating margins, it expected more than financial know-how from the firm.

An attachment to the contract also stated that GCS expected improvements in member relations and consumer orientation. Success in meeting these additional objectives would result in an additional bonus for the general manager of up to 10 percent of any net margin before income tax above \$200,000. The percent was to be determined at the end of the year in the board's annual review of the general manager's performance.

With improved net margins from the stores, there was more leeway for working with other cooperative entities. The Greenbelt Co-op was a major supporter of the Cooperative Institute Association during the '60s, and the International Cooperative Development Association, which GCS joined as a charter member to assist cooperatives overseas. This was a link for GCS with farmer production and marketing cooperatives. The Board also authorized a donation of \$2,500 to the Cooperative League for its Worldwide Extension Service.

There was money, too, for some public relations promotion. GCS took part in the International Food Show when it opened at the Armory in Washington. The booth was manned by 45 member and staff volunteers, taking turns.

Some public exposure was free. Scandinavian Airlines featured SCAN furniture in a downtown window display. Pepsi-Cola sponsored a nationwide "shopping spree" contest which was won by a family who were strong supporters of the Co-op and regular shoppers at the Takoma Park supermarket. In a 15-minute race through the aisles, they carried \$11,002.49 in meats and groceries to the checkout counter to the cheers of hundreds of onlookers. The newspaper and radio publicity was a priceless boost for Co-op. The Greenbelt Cooperative also picked up public relations kudos for being the first merchandisers in the Washington market area to sell biodegradable detergent. By the end of its first year, this CO-OP label product had out-sold all other detergents on the shelves, and helped solidify GCS's reputation as an innovator.

The Morrow/Checchi management and the Board continually came up with innovations that benefitted shoppers. One of these was a new type of plastic milk carton that was less likely to collapse. Other chains adopted it shortly thereafter. Bulk food sales (beans, rice, dried fruits, nuts, coffee beans, etc., from covered bins at prices lower than packaged goods) was another idea that was soon followed by the chains.

Another innovation may have been a few years ahead of its time. GCS, the National Council of Senior Citizens, and the National Farmers Union entered into a joint venture to provide a prescription-by-mail service for senior citizens who did not have easy access to a drug store. GCS managed the service with NFU sharing the start-up capital. Both NFU and NCSC

would do the promotional work. Older members of all three organizations would be eligible to buy prescription drugs, vitamins, and health accessories by mail at discount prices.

In the spring of 1965, Senior Citizens Direct Drug Service, Inc., began operations from a pharmacy located near a post office, at 823 Upshur Street NW in Washington, D.C.

The enterprise was moderately successful, serving thousands of elderly, and lasted until 1974. With an obvious need for this type of service, and enough membership from the three sponsoring organizations to support it, this enterprise's eventual failure was a disappointment. But perhaps the mail order pharmacy idea was too new and the promotion inadequate. Increased postage rates and packaging costs were also negative factors. When it closed in April 1974, the service had a deficit of \$60,000.

1966 was the year of one of the most unusual incidents in GCS's history: a take-over attempt.

A former director of GCS has suggested that a cooperative is most likely to be a target for takeover when (a) it has accumulated capital, especially cash, or profit potential, and (b) at the same time there is a vulnerable board or a membership which does not understand its strength or advantages as owners. By 1966, the Greenbelt Cooperative certainly fit the first criteria; its success under Checchi was well established, and the Washington newspapers had carried articles on increased sales and "profits".

This bizarre chapter in GCS's history began back in November of 1965, when one L. D. Pratt, identified by the press as an active member of the Free D.C. Movement, presented the Board with a proposal for taking over GCS's Piney Branch store. Pratt proposed to organize a group called the Washington-Baltimore Freedom Partnership (WBFP) for this purpose. WBFP would purchase a fleet of Volkswagen buses—to be driven by high school drop-outs—which would transport shoppers from D.C. to the Piney Branch store. The shoppers were to refund to WBFP from 50 to 100 percent of their savings resulting from shopping at the Piney Branch store.

GCS, quite naturally, questioned the merit of some of these proposals, pointing out that operating a fleet of buses might necessitate complying with Transit Commission regulations; that the WBFP proposal to collect fees from its own members might involve the sale of securities and require compliance with the Securities and Exchange Commission regulations; and that the proposal, which ultimately entailed operating a non-union store, would violate GCS' contract with the union.

Pratt replied that he would love to take on the Transit Commission; would be glad to picket the SEC; and that he had people just as big as the union. Pratt also implied that if GCS did not go along with the idea, WBFP would picket the stores and block aisles.

Following this conversation, both sides retained legal counsel. GCS's lawyer, Philip Hirschkop, advised that any threats against GCS in order to secure financial gain for the threatening individual could be treated as criminal. On December 21, 1965, a final meeting was held with Mr. Pratt. He was accompanied by counsel who opened the conversation by assuring GCS that his client had never threatened any action and by making it clear that if GCS rejected the WBFP proposal as a business proposition the matter would be closed.

GCS rejected the business proposition. The Piney Branch landlord, Nationwide Insurance, had stated through counsel that under Ohio insurance law they could not approve such a group as WBFP as a tenant.

GCS did, however, offer to help Pratt and his group if they could. The Board offered to look into opening a store in a low income area of D.C. They also offered to extend the Co-op's discount program to community organizations, donating to WBFP one percent of their members' purchases at the Piney Branch store. Next was an offer to assist WBFP in establishing their own cooperative in the District. Pratt declined all offers of aid.

One would have thought that the matter was closed.

The Co-op Congress met in early April and selected five candidates to run as a slate in the June 12 Board of Directors' election. These five would constitute a majority on the nine-director board.

Then on April 25, Mr. Pratt filed papers for 20 petition candidates for the GCS Board of Directors. All 20 had the requisite 10 signatures. As the CO-OP NEWSLETTER reported it, "A group of people identifying themselves with the civil rights movement are attempting to take over control of GCS by electing five of their members to the nine-person Board of Directors in the annual election June 12."

Because the candidates had co-signed each other's petitions, only 32 signatures were represented. Eight of the 20 joined the Co-op on April 25, the day they filed as candidates, by buying one \$10 share. Seven others had joined April 23. Only two had been members for more than a year. None of the candidates had previously served the Co-op in any capacity; none were known to have attended any Co-op meeting.

News of the petition candidates hit the front pages of the Washington newspapers the next day. Two spokesmen for the group were quoted at length about their intentions to use the Co-op to help the poor. When the Board and other Co-op leaders met with five of the candidates May 17, the petition candidates talked in generalities about civil rights, poverty and the "Dynamics of Power Change." None admitted any previous co-op experience. They seemed unaware, and uninterested, that the Co-op had been concerned with the plight of the less privileged groups for more than a quarter of a century.

The petition candidates were invited to address any or all of the area membership meetings along with the Congress slate of candidates, and were given the schedule of meetings. Several did attend and speak at one or more meetings. They were courteously received but not much enthusiasm was observed.

Directors, Congress leaders, and management staff were deeply concerned, not so much about the possibility of petition candidates winning — obviously 20 candidates vying for 5 positions were going to split their own votes — but about the impression a high vote for the newcomers would make on the membership and on the public. It seemed that an effort was being made to cast the Cooperative as a part of the 'establishment', ignoring the poor and the defenders of civil rights.

The Member Relations Department, and a committee made up of directors and Congress leaders, organized a campaign to inform members what was at stake in the election and to get out a record vote. More than 400 member volunteers visited other members door-to-door or by telephone. Carpools and baby sitters were provided on the day of the annual meeting.

There was a record turnout on June 12. When the votes were counted, 8,940 valid ballots had been cast. Votes for the Congress-nominated slate ranged from 8,855 to 8,868. Four of the petition candidates had 18 votes each; one had 15, two received 4, two received 2, and the others received a single vote each.

Shortly after this demonstration of member loyalty, the new Board sat down with management and planned defense measures which would protect the corporate integrity of the Cooperative in future years. One step taken was a change in Board terms from 2-years, which elected a majority of directors every other year, to 3-years, with only three directors up for election at any given time. Another bylaws change required 100 signatures for a petition candidate instead of 10. A third safeguard called for a Board candidate to have served in some participatory role in leadership or committee work within the previous 5 years.

It is ironic that the ill-conceived idea of taking over the Co-op for the asserted purpose of helping the poor came at a time when groups in GCS already were at work doing just that. The 12th Co-op Congress unanimously adopted a resolution involving the Cooperative in "Inner-City Anti-Poverty Activity," emphasizing the techniques of cooperation and self-help. The area delegations were encouraged to work on local projects, while the Board and management concentrated on establishing a store or stores in the poorer sections of Washington. Several buying clubs and two small stores did develop and survive briefly. One of these buying clubs, operating out of St. Marks Church, established five auxiliary clubs with a total membership of 200

families after the first year. Its first president said in a letter: "We have been a great success in showing people CO-OP products and saving money for them....We are sold on the cooperative idea and thank Greenbelt for getting us started."

In the midst of all this excitement and outside activity, GCS had a good year operationally and financially. A new 'user-friendly' and simplified balance sheet for 1966 highlighted a good year:

"We received during 1966—

from our customers for products and services	\$32,757,522
from interest earned on investments	9,408
Total we received	<u>\$32,766,930</u>

What we did with the funds received—

We bought materials and supplies and paid for services provided for our members and customers	\$28,329,924
Co-op employees earned wages and salaries of	3,442,451
The Co-op provided additional employee benefits and paid payroll taxes in the amount of	428,213
We contributed to our communities through State and Federal income taxes	153,000
We paid interest of	42,570
We allowed for depreciation	210,106
We provided for a minority interest in our operations and paid dividends on the preferred stock of a subsidiary	1,258
The total we paid out or provided was	<u>\$32,607,522</u>

We had left as net income	\$ 159,408
We used this net income	
to pay dividends to our member-owners	\$ 86,715
to reinvest in the Cooperative	\$ 72,693

The operations summary by Morrow noted that although 1966 had been a year of rising prices, GCS had fought the trend, even to the extent of taking significantly lower margins. Even so, "our sales for the third consecutive year set an all-time record....Our net savings were the second highest ever."

Net working capital at the end of fiscal year 1966 was \$822,488, and the current ratio of assets to liabilities stood at 1.58, better than previous years but still not as high as it should be.

Vincent Checchi had set ambitious goals for GCS earlier in the year when he addressed the annual conference of the Association for Cooperative Educators, at the University of Maryland:

"We don't want to create great, soulless co-ops like big corporations, but we don't have to be small....[Remember] these three steps in attaining growth: Set high standards at all levels for members, board of directors and management; do a few things well — budget your financial, management and technical resources; and look ahead to target social and economic goals for 10, 20 years from now and plan for them."

By year's end, these goals seemed attainable.



Kroger Buyout and Shift to SCAN (1967-1969)

During 1966 the only expansion in supermarkets had been a \$130,000 remodeling of the Rockville store. By 1967 GCS was about to take the biggest plunge in its history.

On April 19, 1967, Greenbelt Consumer Services, Inc., bought out the entire Washington Division of Kroger Company. This purchase represented the largest single, one-shot expansion ever made by a consumer-goods cooperative in the United States.

The WASHINGTON POST, under a four-column headline, reported that "The Kroger Co., third largest grocery chain in the Nation, has sold its nine supermarkets in the Washington area to Greenbelt Consumer Services, Inc., of nearby Maryland. The price was not disclosed but was believed to be in excess of \$3 million for [leases], inventory, fixtures and leasehold improvements. Land and buildings were not owned by Kroger..."

Eight of the supermarkets reopened May 1 as GCS Discount Supermarkets, with no initial change in managers or employees. Four were in Virginia and four in Maryland. The ninth supermarket was under construction in Virginia and would not open until August.

The Board vote on the acquisition had been unanimous. Checchi and Morrow had urged the purchase and presented projections which seemed attainable.

A year later it became apparent that the Board had been over-optimistic.

The Arlington, Virginia, store had to be closed and was lost after the first month by court order over a legal problem beyond the control of GCS. That left the Cooperative with eight supermarkets from Kroger, for a total of 21 supermarkets altogether.

At the end of the first fiscal year, weekly average sales of all eight were below projected budget. The weekly average for sales in March 1968 for each store was below the 1967 average and it was below the previous month for all except two stores. Four had made some contribution toward administra-

tive overhead during the fiscal year; four showed a loss even before considering central office expenses.

The disappointing results from the Kroger acquisition were felt all through the Cooperative's operations and structure. Management's annual in-depth report to the Board on the supermarket division in May 1968 acknowledged that operating results for this division were unsatisfactory. It was the first year in the past four that GCS failed to achieve an increase in sales and net margins in the first quarter (13 weeks).

The report acknowledged that the acquisition had been quite an undertaking. "We underestimated the cost and the length of time necessary to effect the transition of the Kroger management, personnel and stores into our organization. It was difficult to change Kroger managers from policies and procedures which they had worked under for up to 10 years to our own.... We also found it difficult to liquidate the Kroger label merchandise at an acceptable margin.... We are spread very thin in several areas.... New stores and conversion of existing stores to discount operations continue to cause sales problems."

Looking back it was easy to see that GCS had swallowed more than it could chew. The report from Morrow and Checchi covered only part of the problem. There was not enough money on hand to remodel, rearrange, and redecorate the acquired stores to meet GCS patterns and standards. There was not enough staffing in the member relations department and there were not enough volunteers from the Congress leadership to convert shoppers to knowledgeable cooperative members in eight new areas all at once.

A second Virginia store was closed in 1968; a third in 1971. GCS's largest acquisition to date had not been a resounding success.

Another major shift in GCS operations occurred in 1968. The year-end report for fiscal year 1967 showed that, for the first time in 28 years of operation, the supermarkets were no longer the main support of the Cooperative. The SCAN furniture division rang up net operating savings of \$298,921 in 1967. All other divisions ended up in the red: supermarkets (\$91,039), petroleum (\$4,887), pharmacy (\$2,083). After 1968, as sales diminished, operating margins disappeared, and supermarkets, service stations and pharmacies closed one after another, the Cooperative became essentially a furniture business.

1968 saw other changes. Several women shoppers in the Wheaton area council introduced an innovation which changed grocery merchandising in the Washington area. Weary of looking at cans and packages of varying sizes, weights, and prices, and trying to figure which was the best buy, they proposed that shelf markers show the price per ounce. The management of the Wheaton store agreed to try it. Unit pricing was an overnight success, so popular that it spread to five other Co-op supermarkets the following

week. Shortly thereafter, Giant and Safeway followed, and now unit pricing for shopping comparisons is universal.

Expansion of GCS took another leap in 1968 when the Peninsula Cooperative Association members voted to merge with Greenbelt Cooperative Services, Inc. Peninsula at this time had about 4,000 members in Hampton, Newport News and Norfolk, Virginia, about 200 miles from the GCS office. The Peninsula cooperators operated two markets, a bookstore (which management closed shortly after the merger), and a Scandia furniture store. All the stores were losing money until a management contract with Checchi and Company found economies that put them in the black.

It was agreed that GCS would exchange shares of stock on a one-for-one basis. Peninsula members officially approved the merger in June; GCS in August. It took time, however, to recover the required number of shares to finalize the merger. This took place in February 1969, but by then activities of the two cooperatives were already being put together. A Peninsula delegation to the GCS Co-op Congress was elected and participated in nominations for directors in the 1969 election.

Additional expansion in 1969 included Skinker Tires, Inc. This was a family business established in Washington in 1919. The acquisition included a retail Sinclair gasoline service station and Goodyear tire distribution franchise at 4444 Connecticut Avenue NW, about two blocks north of the Van Ness SCAN, and a fleet truck tire business and warehouse on Butler Road in Bethesda, Maryland. The business specialized in tires and tire servicing for heavy construction equipment. Skinker staff remained after the purchase, as did the name; no "Co-op", "Consumer Discount", or "Greenbelt Consumer Services" sign appeared on the premises. By the summer of 1971 GCS would be trying to get rid of Skinker Tires, as it was losing money and had no membership constituency.

One controversy that arose during this time was in response to a grape boycott. In support of Caesar Chavez's struggle to improve grape pickers' wages, GCS was asked by a local union not to advertise California grapes. It complied, although it continued to carry the grapes, explaining that "We feel that the decision with respect to the grapes should not be made [by board or management] but by you, the consumer." A statement on both sides of the controversy was placed in the produce section of each supermarket.

This did not satisfy those members of the Cooperative who felt that store shelves should demonstrate social consciousness. A similar controversy within the Berkeley Co-op in California was being watched by GCS leaders. As there were other arguments about products from time to time — lobster tails from South Africa, lettuce picked by non-union labor, the use of pesticides on produce for instance — the Board adopted a written policy on controversial products. It said, in effect, that barring all items that some group

within the membership of 25,000 families wanted to boycott was unworkable. There were also the non-member shoppers to consider. Posting information in the stores about product controversies was the practice followed.

Sales and both operating and net income for GCS improved in 1968 in contrast to the discouraging results of the previous year. Operations in 1969 were still better. Here are some of the key figures:

	<u>FY1969</u>	<u>FY1968</u>
Sales	\$50,122,294	\$ 42,755,021
Operating income	500,843	263,768
Other income	69,346	29,352
Net income	206,402	92,709
Total assets	7,310,013	6,354,642
Shareholders' equity	2,621,204	2,143,242
Current ratio	1.45	1.36
No. of shareholders	3,357	27,907
No. of employees	1,070	923

Two of the above figures are benchmarks in the history of GCS. Sales topped \$50 million for first time and the number of employees passed the one thousand level. Also worth noting: the current ratio of assets to liabilities continued to indicate undercapitalization.

The Board obtained SEC clearance for a new issue of debentures in 1969. These carried 7 percent interest for the 5-year series and 7 1/2 percent for the 10-year ones. A total of \$124,000 were sold in November and December.

By 1969 the membership had grown to such a size that representation on the Congress was changed to one for 400 members instead of 200.

It is interesting, and telling, to note that the minute book of Board meetings by this time was referring to the "Company" instead of the "Co-operative".

Slipping (1970-1972)

After 1969's bright financial picture, 1970 was a disappointment. While sales for the year were a little higher due largely to the opening of two new SCAN stores, the year end statement showed a serious loss instead of earnings. The end of 1970 also marked the end of the GCS's management contract with Checchi and Company.

GCS's sixth SCAN store, opened on March 25, was a departure from the others in two respects. The location was a pricey one in Washington's Georgetown. The store was in a converted warehouse and contained a number of other fine shops. Merchandise also distinguished the Georgetown SCAN; it included home accessories and gifts like imported fabrics, dresses from Finland, Rya rugs, lamps, kitchenware, and handicrafts. A seventh SCAN was opened in January of 1971 (FY '70) in Virginia, and an eighth in August of 1971 in Columbia, Maryland.

In an effort to maintain sales levels in the supermarkets amid increasing competition, two were extensively remodeled: Kensington and Westminster. The Westminster area delegation launched a capital contribution drive to raise the needed \$110,000 for their store. Enough shares of stock and debentures were bought to cover the refurbishing. GCS debentures were so popular, that the Board had to go to SEC for approval of another issue of \$100,000. The 7 percent series was sold out in 10 weeks.

Unable to organize a consumer-owned cooperative store in the low income areas of Washington, GCS contented itself in 1970 with helping the Martin Luther King Food Stores. Checchi and Company had by this time started an Inner-City Project, headed by a former store manager from the Greenbelt Co-op. GCS helped with equipment and wholesaling service for CO-OP label products. The aim was to "train and develop employable people for the labor market and to save low-income residents considerable money on their food budgets compared to the convenience-type stores in which they previously were forced to shop."

The Co-op Congress' structure was studied by a Board appointed committee, and a report was issued which clearly identified a basic problem

in the GCS structure. The Congress had been set up to provide representation to every Co-op member in a growth situation where geographic spread and increasing membership made direct participation impractical. Now, however, a second layer of representation had been created between the membership and the Board in the form of the Area Councils. The way the system was working now, the Congress was acting as a link between the Councils and the Board, not between the membership and the Board. The result of all this was a lack of member identification with specific stores, and a general feeling of malaise. Members, in general, didn't effectively feel they were member-owners.

This report helped fan dispute between individual Board members, and between the Board and Morrow and Checchi. There were differences of opinion over how much time and money should be spent on stressing GCS's identity as a member-owned cooperative. Checchi strongly emphasized the business side of GCS.

In mid-May, Checchi announced to the Board his company required Morrow's services for some of its contract work with cooperatives overseas. Paul Nelson replaced him as executive vice president of GCS, with Board approval.

By June, however, the Board decided the time had come for a return to a single individual as chief executive officer instead of a management firm. Checchi was notified that the management contract would not be renewed upon termination at the end of the fiscal year.

The Board thereupon authorized \$12,000 plus costs for an executive search. It also called for a management audit; an outside evaluation of the GCS organization, operations, objectives, and key personnel; and proposals for a study of supermarkets in the Washington marketing area.

On January 6, 1971, Eric Waldbaum was named the new president and CEO of GCS. Waldbaum, a 32 year-old New Yorker, had extensive experience in food marketing, as well as a notable record on consumer issues and a stated commitment to cooperative principles.

Sales in fiscal 1970 totaled \$50,974,463. The operating loss was \$227,420, and the net income loss was \$169,049. This figured out at a loss of \$.81 per share of capital stock, compared with \$1.17 income per share in 1969. Members' investment had slipped slightly, from \$2,226,597 to \$2,170,680.

The early months of 1971 were taken up with adjusting to Waldbaum and stemming the losses, but some bright spots appeared as well.

Waldbaum and GCS scored a benefit for consumers—as well as a public relations coup—by unlocking the Freshness Code Book that all supermarket chains used, but kept carefully hidden from the shopping public. In a news conference on March 8, the new president and CEO announced that beginning immediately the guide to coded dates on some 2,000 items on the

supermarket shelves of all GCS stores would be available to shoppers, along with explanation on how to use the books. Attending the meeting were not only representatives of the press and radio/TV but Rep. Benjamin Rosenthal (D, N.Y.), representatives of Maryland and Federal offices concerned with consumer affairs, and "Nader's Raiders."

GCS soon introduced several more "freshness" programs. These included a 90-hour time limit for sale of milk (current practice was 7 to 10 days), 1-day limit on CO-OP label bread (current practice was 3 to 5 days), and 3 days for fresh red meat and poultry with the pull date plainly marked.

The Cooperative's travel program had grown so big and popular by the 1970s that management assigned a staff member to work with the Co-op Travel Committee which involved more than 100 volunteers from the membership. In 1971 alone, more than 1,800 members went on trips. On top of the already low-cost charter flights, a patronage refund totalling \$15,000 was divvied up in 1971.

SCAN's heady success suffered a series of setbacks in the latter part of 1971. President Nixon unexpectedly announced a 10 percent import surcharge on foreign goods. The U.S. dollar was cut loose from the gold standard, leaving it to float on international exchanges. And there was a 56-day strike by dock workers followed by a 90-day cooling off period.

The first two Governmental actions immediately raised the cost of furniture to SCAN stores. As an act of good faith, SCAN honored all orders placed prior to the Government action at pre-surcharge prices, even though the Co-op had to pay the difference when the furniture was delivered. Although the surcharge was subsequently lifted, devaluation of the dollar in relation to Scandinavian currencies made imported furniture substantially more expensive.

Despite the setbacks, SCAN finished the year with substantial increases in sales and net margins.

GCS as a whole did not fare so well. In July of 1971, Waldbaum and his key executives held a meeting with the Board to discuss GCS leases. He outlined each lease, noting cost and renewal options, and the state of depreciation for each supermarket. He explained that the industry standard was never to let a supermarket depreciate more than 20 percent and that the better operations kept maintenance of equipment, fixtures, and exterior at no more than 10 percent. Most of the GCS supermarkets were far below the industry standard. The Board went away from the briefing quite shaken about future prospects.

Although total sales were up by about \$4 million to a total of \$55,139,097, the net loss for 1971 amounted to \$813,267. This was a loss of \$3.79 per share of stock. The board voted a 5 percent dividend, but it had to be paid out of dwindling reserves. A large chunk of the net loss, about \$375,000, was at-

tributable to closing supermarkets which had been operating at a loss. High labor costs and intense competition were taking their toll.

The number of employees had been reduced slightly, but total labor costs increased by more than \$850,000.

The balance sheet showed cash on hand down to less than half what it had been at the beginning of the year. Total assets were down by \$1.25 million.

One major success brightened the GCS picture in 1972, but by the end of the year it was evident that operations were slipping badly. The bright spot came in May. Beef prices had been high, squeezing supermarket margins and outraging shoppers. It may have been coincidence, but at the point when wholesale prices for beef started to drop, Giant and Safeway in the Washington area kept retail prices up. GCS Chief Executive Officer Waldbaum had a full-page advertisement prepared for the WASHINGTON POST and the STAR to challenge the big chains' claim that beef's wholesale prices were still too high for reduction in retail prices. The Consumers Discount Supermarket ad featured a photo of a cow with the caption: "While the giants of the food industry were feeding you bull we were feeding you beef."

The two Washington dailies refused to print the advertisement. They claimed it was in poor taste and affronted the competition. The result was a PR bonus for GCS. The suburban MONTGOMERY COUNTY JOURNAL published the ad, along with an editorial headlined "Freedom of Information." The hubbub was finally reported in the Washington papers after radio stations picked up the censorship aspect. Secretary of Agriculture Earl Butz, two U.S. Congressmen, and spokesmen for the farm lobby took up the issue and all sided with the Cooperative. Finally Secretary of the Treasury John Connally called a conference of representatives of the nation's 12 largest supermarket chains. And with that, beef prices in supermarkets came down. GCS had scored a valid point about profit margins.

This public pat-on-the-back was not enough to save the Consumer Discount supermarkets, however. Sales, after some fluctuation, again decreased, and losses kept climbing. Management changed wholesalers in an effort to secure better service, fewer out-of-stocks, and better prices.

When flood damage ruined the inventory and equipment in the just-remodeled Arlandria, Virginia, supermarket, that store had to be closed. In June, both of the Baltimore stores were closed as hopeless loss operations. Another long-time loser, the Piney Branch supermarket, closed in July. The next casualty was Penn Daw in October. The Penn Daw pharmacy shut down the following month.

In several areas, members of the local councils made efforts to step up sales, but these were mainly ineffectual.

In the face of these failures, SCAN furniture operations continued to prosper.

By the year's end, visitors to Board meetings were required to sign a confidentiality form in order to be permitted to sit in on executive sessions. The Board was discussing closing the remaining pharmacies. Management reported they were too small to be profitable.

Sales in 1972 were \$43,122,933, a small gain over 1971, due largely to SCAN sales increases. There was a net loss of \$507,429, resulting in a \$1,519,306 deficit. From the sale of assets during the year, working capital had been increased by \$83,721. Total current assets stood at \$5,356,275, but current liabilities were \$4,818,113; this showed a very poor current ratio of 1.11.

The membership total stood at 38,411, although how many could be considered "active" would be hard to decide. Employees had dropped to 875.



Decline — And Some Recovery (1973-1975)

The decline which had become so evident by 1972 worsened in 1973. Losses and supermarket closings continued, and the nation-wide gaso line shortage threatened to close down the service stations. Beyond that, there appeared a disintegration in nearly all aspects of operation and communication within GCS.

The Board itself seemed unsure of its role in the Cooperative's performance and future. It was often late in responding to inquiries from area councils. Board minutes show indecisiveness, with directors abstaining from votes and many postponements of agenda items. Committees also were not functioning well, increasingly late with their reports.

At every Board meeting during the year, there was at least one executive session which was closed to the members. More and more considerations seemed to require secrecy, and this drew criticism from the members.

For example, it had long been recognized that any forewarning of a store closing led to serious "shrinkage" (theft and failure to charge fully at the checkout counter for friends) and to lower productivity as employees turned their attention to replacement jobs. Because of this, store closings were usually planned quietly. But the flip side of this perceived need for secrecy was the anger of employees and members at not being informed well in advance. While employees were often aware of store problems, and thus less likely to be taken by surprise when a facility closed, members and shoppers for the most part failed to understand the economic imperative and responded with resentment and charges of mismanagement.

Several directors recall a flurry of ad hoc meetings toward the end of the year. These were held in homes of the directors with no one present from management or from the Congress or its Review and Evaluation Committee. No minutes were kept. One director has reported that "the primary purpose was to discuss the Cooperative's finances, potential of survival, and most importantly the extent to which we trusted management. To some of us,

management appeared top-heavy and second-line executives were coming and going with little apparent improvement in operations."

Operationally, 1973 was a dismal year. Four supermarkets (Wheaton, Pennmar, Falls Church and Arlington Boulevard), three service stations (Suitland, Fairlington and Connecticut Avenue), and a pharmacy (Takoma Park) were closed. Two of the service stations were reclaimed by the gasoline distributor, BP Oil Corporation, which had replaced Sinclair. The supermarket locations were subleased. Net loss from these discontinued operations was \$93,441 (including a credit of \$87,000 for earlier income taxes), far below the previous year's losses of \$491,570 for the same facilities.

Total deficit at the end of FY 1973 was \$1,293,795. The consolidated statement of income and deficit took a different format from what had previously been used in order to show income from continuing operations and loss from discontinued operations separately. Income from continuing operations was shown at \$216,952. Capital shares at \$10 par value appeared on the balance sheet as \$2,182,900. However, shareholders' equity had dropped to \$4.15 per share.

To take advantage of tax benefits in the event of possible future sale, the Takoma Park Shopping Center, Inc., was liquidated as a subsidiary corporation and merged with GCS in January 1974.

GCS operations were hit by events beyond its control in 1973. In addition to increased competition, there was rapid inflation, which ran up prices and angered bargain shoppers. Maryland facilities were hurt by an appeals court ruling that old "blue laws" were still valid; stores with more than six employees had to close on Sundays.

This was also the year the OPEC oil crisis hit. BP Oil Corporation, which supplied the GCS stations, favored its own company-held stations and cut the allocation to leased stations. The company even attempted to cut off GCS entirely, informing management that there would be no more deliveries after July 9. Waldbaum fought the order and threatened to go public with the question of whether BP was trying to force up the price of gasoline through monopoly manipulation. After a difficult negotiation, BP agreed to provide gasoline to GCS for a limited period, but terminated the franchise identification. GCS renamed the stations "EXVAL" (note: not CO-OP, Consumer Discount, or GCS).

The only expansion for GCS this year was a doubling of warehouse space for SCAN. While inflation in the U.S. and Scandinavia and the dollar's decline in European markets was cutting into SCAN's profitability, the furniture division nevertheless continued to hold more promise for the future than supermarkets, pharmacies, and service stations.

With members increasingly disillusioned and upset about the disappearance of patronage refunds and dividends, management attempted a little

compensation by putting discount coupons in the CO-OP CONSUMER for members only. Occasional checks on coupons used, however, suggested this was no big deal compared with promotions competing chains were offering shoppers.

There were also increasing complaints about poor morale among employees. From membership leaders there were repeated demands for more orientation that would help employees to realize they were working within a consumer cooperative, and that this was fundamentally different from other organizations.

The closing out of loss operations put a special burden on the accounting staff and involved the need for outside legal counsel. Reports were required by the Internal Revenue Service and the Securities and Exchange Commission. The December monthly operating report was not available to the Board until March 16, due to an inability to find qualified accountants. The year-end operating report and financial data, normally ready by February or March, were not certified by the auditors until June.

A lawsuit with Checchi and Company also occupied the Board in 1973. This lengthy suit, which charged GCS's former management company with, among other things, negligence and mismanagement, was finally settled in February 1976 by a \$20,000 payment to GCS.

Meanwhile, the Board tried to strengthen its own capabilities. There was a 3-day conference on the Board's role in planning and the objectives of the Cooperative in April 1973. In August there was a 2-day training workshop led by Leon Garoyan, and in January, Owen Hallberg, president of the American Institute for Cooperatives, led a workshop on "Director Responsibilities and Qualifications in a Cooperative."

Leaders in both the Board and the Congress realized how precarious the GCS position was in the face of problems which had accumulated. The Congress held a workshop in November for answers to the question: "What Kind of a Co-op do we want?" Most of the suggestions listed, however, carried a substantial price tag.

One of the more significant findings was the fact that among the Cooperative's 38,000 members, there was a tremendous reservoir of untapped leadership, and that the current leadership was made up of familiar faces who, after years of service, were beginning to show their age.

GCS entered 1974 slimmer but healthier and with some optimism for the future. Earlier losses were being reversed, and sales for the continuing operations were \$4 million higher.

SCAN continued to contribute net margins despite unfavorable currency exchange rates. The only serious problem with the operation was high inventory, about half a million dollars above what management judged it should be. The problem was linked to the tendency to buy larger quantities

in anticipation of continuing price escalation. This was a sensible precaution, but it kept GCS short of cash for other operating needs.

The pressure for operating cash became acute at mid-year when a large issue of debentures had to be repaid. This required an additional bank loan. Fortunately the SEC cleared the way for a new prospectus, so GCS could issue up to \$750,000 in 10-year subordinated debentures at 9 percent interest and 3-year debentures at 7½ percent.

The scheduled remodeling of most of the 12 supermarkets still operated by GCS also contributed to the pressure for cash. Takoma Park was completed in April, Capital Plaza in September, and Rockville in November. All showed immediate increases in sales.

GCS opened an innovative fresh produce store in the space vacated at Penn Daw by the closing of the pharmacy. It had a "farmers market" image, and estimated weekly sales at between \$22,000 and \$38,000, with a gross margin of 23-26 percent. The store, called "Straight from the Crate," was self-service and had three checkout registers. It opened November 12. The atmosphere was informal and friendly, but sometimes untidy, as produce from bushel baskets spilled onto the floor.

In September there was an 8-day strike against the large unionized supermarket chains. Because their contract with the union expired a bit later, GCS supermarkets in the Washington area picked up about an extra \$1 million in sales. Extra costs for overtime pay, emergency deliveries, and some higher wholesale prices consumed any additional net margin, but GCS won goodwill and retained some of the new customers. Shoppers and leaders of the Co-op praised employees for their cooperation and cheerfulness in meeting the emergency.

While the furniture stores and supermarkets were producing satisfactory results in 1974, the auto service stations surmounted the gasoline shortage crisis and began to move into the black. Sales at the Penn Daw service station were \$20,000 ahead of 1973.

In the early part of 1975, two more pharmacies were closed; the only remaining GCS pharmacy was the one adjoining the Co-op supermarket in Greenbelt.¹ Another divestiture was GCS's partnership share in Smiths Bakery, long supplier of CO-OP label bread and baked goods; for the last several years it had been operating at a big loss. In September, 1975, GCS sold back its shares for \$64,000.

The range of matters to which Congress, Board, and management devoted time in this particular year can perhaps be illustrated by two examples at opposite ends of the spectrum.

¹ This pharmacy still serves the people of Greenbelt today, although now it is operated and owned locally by the Greenbelt Consumers Cooperative, Inc. which purchased the facilities from GCS in 1984.

One was the sale of around 60 tons of watermelons raised by very poor small-farm families belonging to the Federation of Southern Cooperatives. Countless hours went into the arrangements and promotion for selling the melons. This was the sort of project a co-op would undertake, but which no profit-oriented supermarket chain was interested in. The project's primary purpose was to extend a helping hand to a struggling new cooperative made up of low income black farmers, not to improve the GCS balance sheets.

A totally different project was the switch in the SCAN division from the FIFO (first-in, first-out) method of valuing furniture inventories to LIFO (last-in, first-out). Its sole purpose was to run the business more efficiently with an eye towards reducing taxes and maximizing profits.

GCS finished the 1974 fiscal year with a record high sales figure of \$55,918,677 and net income amounting to \$466,641, despite reports during the year of losses. The 6 percent increase in sales could be attributed largely to inflation and to a 53-week reporting period instead of 52 weeks. The gain in income brought the book value of the \$10 shares up to \$7.80, from a low of \$3.12 at the end of fiscal year 1972. Cash on hand and in banks was \$584,540.

There was to some extent an awakening in 1975. Local area leaders offered more suggestions. Committees were functioning better and coming up with meaningful reports. Workshops and seminars attracted large attendance. The Board showed signs of improved organization. And management paid more attention to the membership potential of the Cooperative. It began to look as though the struggle to unite sound business practices with the "Co-op" identity had succeeded.

A "letter to the editor" in the October newsletter described the new feeling:

"There's new life, new vigor stirring in our Co-op....There's renewed interest in consumer information: note the aggressive move on sugared cereals, the lively 'Consumer Alert' messages, the experimental Consumer Center at Capital Plaza....Yes, our Co-op has moved ahead in many different ways."

There were other encouraging signs in 1975.

The Board established strict guidelines for staff incentive plans. No longer would bonuses be paid exclusively on earnings, as it was felt that additional criteria would better serve the long-term interests of the organization.

A legal services program was approved, and began to offer members recourse to a lawyer at reduced rates.

The travel program got a shot in the arm when the Civil Aviation Board backed down on its threat to stop charter flights by membership organizations. However, airlines came up with more attractive price packages which

reduced the margin of savings that GCS could provide. The Co-op's travel committee began shifting attention to 1-week overseas package-tour trips and to 1- and 2-day local trips which became popular for members.

Small scale expansion continued. Management remodeled and upgraded two supermarkets. GCS, with financing from the Small Business Administration, opened its ninth SCAN store in Norfolk, Virginia in November. Offsetting this expansion, management closed out the pharmacy division entirely, as there seemed to be no prospect for profitable operation.

However, the rift between the Board and management, noticeable in previous years, was widening and tension was growing.

Back in the latter part of 1974, CEO Waldbaum had formed an executive committee of operating management which included Bob Gowell for SCAN, Donald O'Keefe for finance, Charles Heft for supermarkets and pharmacies, William Darby for supermarket operations, and Catherine Hildeen for personnel. The committee held regular meetings and kept minutes.

Waldbaum gave copies of these minutes—which reflect that decisions were often by committee vote—to the Board. Several directors unfavorably viewed this system as management by committee rather than by the CEO. Additionally, some directors felt that too much top executive time was being devoted to these meetings as opposed to the operation of the Cooperative. Indeed, this committee's work became so burdensome at one point that there was a proposal (which was later dropped) to hire a secretary. A third Board concern reflected in the minutes was the fact that Waldbaum's committee appeared to spend as much time on procedures and processes as it did on substantive issues. Also recorded were occasions when the executive committee "authorized" Waldbaum to take certain actions. The Board took strong exception to such indications of confusion about who was really in charge of the corporation.

The Board, meanwhile, had its own Management Committee, comprised of the chairman of the Board, the vice chairman, and one other director, rotated among the other seven making up the Board. While this Management Committee had no final authority (any action taken required ratification by the full Board), it nonetheless served as a link between the CEO and his top staff between Board meetings.

In April 1975, the Board's Management Committee and management's Executive Committee began to meet bi-weekly to maintain closer communication. In retrospect, these joint meetings ended up diminishing discussion at Board meetings and increasing friction between Board and management — exactly the opposite of what was intended. From November through the balance of Waldbaum's tenure these meetings were held only sporadically.

Two specific issues came up at the end of the year that added to the

Board's discontent with Waldbaum. The first was the renewal of his employment contract. During sometimes heated debate over the terms of the renewal, concerns were voiced about Waldbaum's proper title, his bonus and compensation package, management accounting procedures, and liability that might arise if the CEO is sued or commits a fraudulent act. These debates eventually led the Board to officially conclude that it had "a duty not just to oversee what the officers are doing; it has a responsibility to supervise what is going on." Then, fanning the flame, management's Executive Committee meeting notes show that Waldbaum presented the draft for his employment contract to his committee for review and approval. The Board felt this issue was exclusively between itself and Waldbaum, without input from other members of the staff.

The other divisive issue was over legal counsel. The Board wanted to hire a new law firm, but at a Board/management retreat in December 1975, it became apparent that there was a lack of agreement on who to select. Waldbaum made it clear that he was not impressed with the Board's choice. In a management Executive Committee meeting held shortly thereafter, a top staff member was quoted as saying: "the legal counsel issue was just the tip of the iceberg. The issue is whether the Board is wise to make decisions directly in opposition to the opinion of operating management."

There was another major debate over whether a proposed new Membership Relations Committee should report to the Board or to the CEO. A compromise, which favored the former, was eventually reached. Later in the year, though, when several directors questioned why management's long-range planning report had so little reference to member relations, Waldbaum snapped, "The responsibility for membership has been removed from operating management."

By the end of 1975, the growing friction between the Board and management had become a concern for both groups. Waldbaum felt that he had "turned the Co-op around and made choices possible," but that the Board was not "facing its responsibility to make choices and determine the direction of the Co-op." Some of the directors felt that the operating situation had become untenable: (1) the remaining supermarkets were continuing to lose money, (2) there was no assured source of supply for gasoline in the service stations, and (3) SCAN was supporting the GCS overhead. Over and beyond that, 2,400 members now had requests on file for GCS repurchase of their shares of stock. To the Board, management was not doing its job.



Another Transition (1976-1979)

By the time 1976 rolled around, on top of friction with the Board, Waldbaum's committee itself seemed to be in disarray. At a meeting in January, Vice President Gowell indicated he would stay with GCS only if the long range plan included sufficient growth and development of SCAN. Vice President O'Keefe "felt dumped upon" because the executive committee would not address the issue of the SCAN data processing system. And Vice President Heft complained that "the whole data processing approach is audit oriented rather than a management tool approach." The Board learned on February 29 that the Management Executive Committee had requested O'Keefe's resignation because of "repeated difficulties" in getting his support for the Executive Committee.

The Board met in February of 1976 to officially draw up a new contract for Waldbaum. The proposal contained many changes which reflected concern about the way things were being run; it also contained a provision which would make the bonus a Board decision, rather than an automatic reward for meeting certain conditions.

When the Board met on March 16, a letter from Waldbaum was read which stated that most of the new contract's provisions were acceptable or could be negotiated, but that a "base salary as total compensation in 1976 is wholly unacceptable to me." His letter appears to accept or indicate willingness to negotiate all points except this "discretionary bonus."

This was, however, an issue the Board was not willing to negotiate. On March 16, it was decided that: "...Whereas Waldbaum has rejected the offer by the Board of Directors...it is in the best interests of the Cooperative that the resultant forthcoming change in management take place immediately....Eric Waldbaum is hereby relieved of all responsibility and authority as Chief Executive Officer of the Cooperative immediately."

The Board agreed to "...continue to fulfill all the provisions of the existing employment agreement unless Mr. Waldbaum should choose to

accept a sum to be determined by subsequent Board action in return for his signed agreement to release the Cooperative from any further obligation under the existing employment agreement."

The Board approved the separation motion unanimously and agreed on \$20,000 as the appropriate termination payment. The Board then reinstated Donald O'Keefe as vice president of administration and finance, and also designated him as Waldbaum's temporary replacement for affiliated entities such as the GCS Pension Plan and the Employee Benefit Trust Retirement Plan and all partially or wholly owned subsidiary corporations.

The Board asked Rowland Burnstan to be chief executive officer of GCS for 3 months (later extended to the end of the year). Burnstan was a retired businessman, management consultant, and economist, who had served as Assistant Secretary of Commerce at one time. He accepted at \$1,000 a week, plus car and some provision toward living expenses.

All this done, Chairman Mohn called Tony Tona, chief of security and loss prevention, to place a guard on the corporate offices to secure all records and to change all locks. The Waldbaum era was over.¹

Another disconcerting incident marred 1976 when it was discovered that several SCAN employees had stolen between \$300,000 and \$400,000 worth of furniture. The operation was discovered when a complaint was made to the police about a large number of SCAN delivery trucks coming and going at a house in northwest Washington, D.C. Customers came to the house and placed orders at deeply cut-rate prices. Then SCAN drivers would bring the ordered furniture to the house for pickup, or deliver it directly to the 'customers.' It was a lucrative business for those involved, and had been going on for several years at the time of its discovery.

Recovery was minimal due to difficulties in supplying hard evidence for the amount of the loss to the bonding company and insurance carrier. A suit against the insurance carrier yielded a paltry \$29,988. Following this massive theft, holding pens were built in the warehouse, with one crew placing orders into the pens, and a separate crew loading from the pens onto the trucks. A new data processing system with inventory control capacity was also installed.

The supermarket division continued to lose sales and operate at a loss in 1976. This trend continued and worsened, despite remodeling and a variety of experiments in merchandising and advertising. When Burnstan took over the CEO responsibilities, he expressed shock at the extent of food store losses.

¹ Almost. Waldbaum took issue with the Board's action and filed several suits against GCS, which were finally settled in 1977 by payment of \$45,000 to the former CEO. These suits, however, took up much of the Board's attention during 1976.